PO-CH/NL/725
PART C

03

SECRET

(Circulate under cover and notify REGISTRY of movement)

Begins: ~~12~~ 2/11/84.
Ends: 16/11/84.

PO/CH/NL/725
Part. C

Chancellor's (Lawson's) Papers:
Autumn Statement 1984.

316.4

SECRET

pmp

FROM: DAVID PERETZ
DATE: 2 November 1984

PS/Economic Secretary

PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Anson
Mr Cassell
Mr H Evans
Mr Scholar
Mr Battishill
Mr Burgner
Miss Pierson
Mr Culpin
Mr Stibbard
Mr Williams
Mr Ridley

AUTUMN STATEMENT: EXPENDITURE IN 1984-85

The Chancellor has seen your minute to me of 31 October. He entirely agrees with the Economic Secretary. He thinks we should say "about £1½ billion", and equate it to the cost of the miners' strike.

DLP

D L C PERETZ

BP

All mins: & advisers to
Sir Michael — also Mr McAlpine.

CHANCELLOR OF THE EXCHEQUER
HONI SOIT QUI MAL Y PENSE

C

You might take the most important point first (Para 4 of Tony's minute) — the size of the fiscal adjustment we want, & how to juggle the figures to get it.

Then look through the ~~detailed~~ texts (Para 3 of Tony's minute). To save time you could ask people only to raise important points, and to pass detailed points separately to Mr Battishill.

[illegible]

28/5H

COPY NO 1 of 15

190

FROM: A M W BATTISHILL
DATE: 2 November 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Littler
Mr Cassell
Mr Monck
Mr Scholar
Mr H P Evans
Mr Pratt
Mr Ridley

AUTUMN STATEMENT

With this minute I am sending you a first complete draft of the Autumn Statement.

2. It is taken (apart from Part 2) from the printers' galley proofs; we only received these late this afternoon and they have not yet been fully checked. Whilst the draft should be regarded as provisional at this stage it gives a fairly good idea of the way the document is coming together.

3. On the separate parts:

<u>**Part 1 - Economic Prospects**</u>: this incorporates your comments on Mr Evans' draft of 26 October, and some further up-dating by the forecasters since then. The more important points are covered in the commentary immediately below by Mr Evans (ANNEX A).

<u>**Part 2 - Public Expenditure Plans for 1985-86**</u>: this section is a very preliminary Treasury draft; it has been put together hurriedly in order to show the general shape that is emerging. But we shall need to look at the text and the figures very closely early next week and then clear it with Departments.

Part 3 - National Insurance Contributions: this is the first time you have seen this section - apart from the table of estimated total payments by employees and employers which has been re-cast this year in a rather simpler form. The text covers the usual ground but has been rearranged a little to bring out the essential points more clearly. I think you need to look particularly carefully at paragraph 3.02 which explains how the underlying earnings figures have been adjusted to take account of the miners' strike in the GAD's calculations.

Part 4 - Illustrative Tax Changes: this is in the form you saw on 23 October, aside from paragraphs 4.07 to 4.10 which have since been rearranged a little (without altering the substance). As you asked the illustrative figures, and the cost of indexation, are each based on an RPI of 5 per cent for the fourth quarter of 1984, though this is now put at 4¾ per cent in the forecast in Part 1. If you preferred to see 4¾ per cent in both places the numbers can soon be changed.

?

4. Perhaps the key question for the meeting on Monday afternoon is the size of the fiscal adjustment to be published for 1985-86 - and the implications for other elements of the forecast. As background to that, you will want to read Miss Peirson's note (ANNEX B) which summarises the forecasters present view of next year's planning total, reserve and fiscal adjustment.

5. I should perhaps remind people that the timetable has the present galley-proofs returning to the printer for correction on Tuesday morning, 6 November. It would be helpful if copy recipients could send comments and corrections to Mr Pratt by close on Monday 5 November.

AB

A M W BATTISHILL

ANNEX. A

ANNEX A.

EVANS COMMENT'Y ON PT I.

The Economic Forecast: Part I of the Autumn Statement

Note by EA

Since the main forecast report was circulated on October 12, the forecast has been updated and revised, taking account of the following main changes:

i) Decisions on public expenditure, as far as they are known.

ii) Lower dollar oil prices, following the recent cut in N. Sea prices, and a slight reassessment of exchange rates.

iii) The September trade deficit, and revised information on earlier months.

iv) The slightly lower assumptions on inflation chosen for public expenditure purposes.

2. The draft of Part 1 of the Autumn Statement has been revised to take account of comments so far received. This note explains the main forecast changes in more detail and comments on some of the points raised on the draft text.

Trade and the balance of payments

3. The deficit in September was over £½ billion more than expected. In addition, DTI will be revising upwards the value of imports since 1980; this has the effect of worsening the trade deficit in 1984 by a further £½ billion. We have therefore revised down our view of 1984 and now propose that the forecast should show a zero balance for 1984 as a whole. Even this may seem optimistic to outsiders, given the deficit so far: we have allowed for £¾ billion upward revision to the 1984 level of IPD, compared with CSO provisional estimates and projections, and for a strong export performance in Q4. We have included a footnote to paragraph 1.24 about the forthcoming revision.

Oil prices

4. We propose to assume - and this seems consistent with the latest OPEC decisions - that N. Sea oil prices will remain at $28.3 a barrel over the forecast period to

1986Q1 (slightly below the BNOC term price because of assumed spot trading at somewhat lower prices). This is currently equivalent at a sterling/dollar exchange rate of 1.22 to to £23.2. But with some recovery in sterling assumed after the end of the miners' strike and some fall in the dollar assumed in the second half of 1985, the forecast has a fall of around 10 per cent in the <u>sterling</u> oil price, to £21.0, by 1985Q4. This is 3 per cent lower than in the October forecast, and reduces oil revenues in 1985-86 by £300m.

5. In consequence, the draft now says (paragraph 1.59) that "<u>dollar</u> prices do not change much". It will be implied, from what is said in paragraph 1.14, that we are assuming a modest recovery in sterling, and if pressed by the TCSC we would say that the dollar is assumed to fall back a little in 1985.

and lower wd reduce it

6. A higher figure for sterling oil prices would raise the fiscal adjustment in 1985-86, and would tend to raise the inflation forecast particularly if it resulted from a lower value of sterling.

<u>Fixed investment</u>

7. The investment forecast is explained in the table overleaf. The slower growth forecast for 1985 reflects: some slowdown in business investment (foreshadowed in investment intentions); a fall in public (mainly local authorities) investment; and an absence of some special factors (like a big rise in N. Sea investment) affecting 1984. The forecast is dependent to some extent on decisions yet to be taken on public investment.

2

8. The text, paragraph 1.43, now makes explicit the forecast for the rise of 6 per cent in business investment in 1985; and there is an explicit reference at the end of the same paragraph to public investment.

Table - The Investment Forecast

(£ billions in 1980 prices)

	level in 1983	per cent change on previous year		
		1983	1984	1985
Private Business - non oil[1]	18.3	2	10	6
- oil[2]	1.8	-20	29	7
Private Housing Investment [3,4]	9.2	11	5	0 ?
Total Private Investment[4]	29.3	3	10	4
Total Public Sector Investment[5,6]	13.0	6	2	-5
(of which: local authorities' investment[5])	(4.0)	(0)	(-3)	(-14)
Total Fixed Investment	42.4	4	7	2

Footnotes

1. The June 1984 DTI Investment Intentions Survey suggested an increase in this item of 8½% in 1984 and 4½% in 1985.

2. The strong growth in oil investment in 1984 reflects the recovery of development expenditure after the delays seen in 1983, and the incentive effects of the 1983 budget and higher gas prices.

3. This item includes improvement expenditure which is assumed to fall by about 10% in 1985 following the cutback in improvement grants and the imposition of VAT. This fall is offset by continued growth forecast for expenditure on new houses.

4. Excluding purchases of council houses.

5. Excluding the proceeds of council house sales.

6. The fall in 1985 is largely the result of the assumed cut-back in Local Authority capital expenditure in 1985-86 following the overspending of the previous two years.

Realistic??

9. On private housing, the forecast incorporates a continuing rise in expenditure on new houses (7½ per cent in 1985) offset by a similar fall in expenditure on improvements. ??

Other areas of the forecast

10. We have made some minor changes and corrections to the text and tables, partly in response to suggestions on the earlier draft. The charts are still being worked on by the CSO.

11. The major questions still outstanding relate to public expenditure totals, the reserve and the fiscal adjustment. Other questions on the forecast that need decision include:

(i) The forecast and description of investment.
(ii) The forecast of the balance of payments.
(iii) The revised descriptions of the effects of the miners' strike.
(iv) The assumptions about oil prices and the exchange rate.

SECRET & PERSONAL

1985-86 Planning Total, Reserve and Fiscal Adjustment

1. This note summarises the likely changes to the October forecast for 1985-86 resulting from the outcome of the Survey and various other changes (eg the reduction in the assumed GDP deflator, and the reduction in forecast oil prices). It draws out the implications for the planning total, the Reserve and the fiscal adjustment.

ANNEX B

PEIRSON NOTE ON 1985-86 PLANNING TOTAL, RESERVE + FISCAL ADJUSTMENT

The Survey

2. Some survey decisions have yet to be taken: notably on housing, where the gap in the figures is over £600m, and on nationalised industries, where a figure has been nearly agreed but not the method of achieving it. In all other cases, we understand, agreement has been reached or the gap is pretty small (by our standards).

3. The various decisions taken represent, naturally, some departure from GEP's July assessment of the outcome of the survey. But they do not in all cases change our forecast. Where another bid has been accepted, we may already have effectively allowed for it in our estimate of overspend. Where a cut has been agreed, we may consider that it is unlikely to have full effect on the actual outturn.

Forecast planning total

4. The first table attached therefore shows the changes we would wish to make to our forecast of the planning total.

5. For housing capital, we have kept to our forecast, which assumes a cut in published plans of around £0.3bn (somewhat less than the Chief Secretary is seeking) and in addition some overspend on those plans. Any further movement in the published plans towards the DOE position would add to our forecast, though not necessarily fully. (For instance, if

DOE got the whole of their increase, we would probably not assume much if any overspend.) The maximum further increase is around £0.4bn.

6. For the nationalised industries, we have provisionally assumed agreement on a 1% real price increase for gas and 0% for electricity. This would add around £0.1bn to our forecast, which had assumed 3% and 1% respectively. (It does not affect our estimates of overspend on the revised plans.) If agreement were reached on - ½% for electricity instead, that would increase our forecast further, but by a negligible amount.

7. The resulting planning total is £133bn, ie no net change from the October forecast.

Implied Reserve

8. The table also shows the implied Reserve. The increases in published programmes agreed (or likely to be) in the survey total £1½bn. The Reserve then required to reach our forecast planning total is £3½bn, as in our October forecast. (The possible further increase in housing mentioned above would increase programmes and hence our planning total, but not the Reserve.)

9. This Reserve of £3½bn is substantially bigger than the initial Reserve of £2¾bn in 1984-85, even though the latter might nearly have sufficed if it had not been for the miners' strike. The main reason for the higher Reserve is that we have forecast a nationalised industries overspend in 1985-86 of about the same order as in 1984-85 (but against a much lower baseline), even though the post-strike costs are assumed to be far smaller than the strike costs.

Fiscal adjustment

10. It is important to consider the implications for the fiscal adjustment. The second table attached shows the changes

we would at present wish to make to our forecast of the fiscal adjustment. It also shows the further increase in the fiscal adjustment which would result if:

(i) a planning total of only £132.1bn (ie the Cmnd 9143 figure, not the survey baseline) with a Reserve of only £3bn, were adopted as the published plan;

and if

(ii) no adjustment were made to the forecast for a possible overspend on that plan of up to £1bn.

11. The fiscal adjustment for 1985-86 in the 1984 FSBR was £2bn. Our latest forecast, taking survey etc changes into account, would produce a fiscal adjustment of £2½bn. With a reduction of the planning total by nearly £1bn, the fiscal adjustment would become nearly £3½bn.

12. That last figure is substantially higher than the Budget forecast, and the Chancellor may not wish to publish such a high fiscal adjustment. But of course the greater the success in public expenditure relative to economic growth, the larger the fiscal adjustment is likely to be.

PSF

2 November 1984

Reserve £3bn
FA £1bn or £1½bn ?

SECRET

Planning Total, 1985-86

What is ?

Table 1

		£bn
1. PEWP less NIS less Reserve		127.9
Reserve in PEWP		(3.8)
2. October forecast		133.0
o/w Reserve required		(3.6)
3. Changes since forecast:		
i) Housing subsidies (implied by change in 1984-85)	- 0.1	
ii) Cash limits underspend (effect of reduced GDP deflator)	- 0.3	
iii) Survey decisions affecting forecast:		
- employment	+ 0.1	
- agriculture	+ 0.1	
- NIs' prices	+ 0.1	
iv) Total changes		- 0.1
4. Resulting forecast planning total		132.9
Increase over PEWP less NIS less Reserve (4-1)	+ 5.0	
o/w changes in published programmes and asset sales	+ 1.5	
5. Reserve required		(3.5)

TABLE 1

SECRET

Table 2

Fiscal adjustment, 1985-86

		£bn
1. Budget forecast of fiscal adjustment*		- 1.9
2. October forecast of fiscal adjustment*		- 3.2
3. Changes since forecast (increase in borrowing +)		
i) Planning total changes (see table 1)	- 0.1	
ii) LA borrowing (reassessment)	+ 0.15	
iii) Grants to LAs (reassessment)	+ 0.15	
iv) North Sea taxes (oil prices)	+ 0.3	
v) Non-NS taxes (largely reduced GDP deflator)	+ 0.3	
vi) Debt interest	- 0.1	
vii) Total changes		+ 0.7
4. Resulting forecast fiscal adjustment*		- 2.5
5. Possible reduction in published planning total compared with forecast		- 0.8
6. Consequent fiscal adjustment*		- 3.3

*– indicates scope for tax reductions

TABLE 2

CONFIDENTIAL

FROM: COLIN MOWL
DATE: 2 November 1984

cc Chancellor
Sir Terence Burns
Mr Cassell
Mr Battishill
Mr Lavelle
Mr Odling-Smee
Miss Peirson
Mr Riley
Mr Horton
Mrs Rowlatt
Mr Ridley

But the gap belong

SIR PETER MIDDLETON

AUTUMN STATEMENT, PART I: THE ECONOMIC FORECAST

1. You asked Mr Evans (Mr Board's minute of 30 October) what the effect on the forecast would be of assuming a continuation of the current sterling index. This would involve an exchange rate about 3¼% below the level of 77½ currently assumed in the forecast. Higher import prices would lead to higher domestic inflation. Our ready reckoner suggests that, on the basis of the normal response, the year on year increase in the RPI at the end of 1985 might be ½-¾% higher, that is, 5-5¼% compared with 4½% in the draft. Inflation might therefore rise over the next year rather than fall slightly as in the draft.

2. These effects are not large however in relation to the error margin for forecasts of inflation in a year's time. Moreover in the last two years the response of prices to changes in the exchange rate has not always been normal. Despite the exchange rate falling more than expected, inflation has come down a bit more than expected. But we cannot rely on this going on for ever. For some time we have been saying that importers' margins in the UK do not look particularly high, as they did for example in 1981.

3. The effects on the rest of the forecast would be negligible. GDP in 1985 as a whole would be more or less the same. Consumer spending would be lower, perhaps by ¼%, as a result of higher prices and interest rates but net trade would be higher as a result of better competitiveness. Despite an improvement in trade volumes the current account would be little different due to worse terms of trade. The

effect on the fiscal adjustment in 1985-86 would be small. Higher revenues, mainly higher oil revenues due to higher sterling oil prices, would be largely offset by higher nominal expenditure.

4. Most of the effects tend to get larger through time so that some which are negligible in 1985 are significant beyond the end of the Industry Act period.

Colin Mowl

COLIN MOWL

SECRET

b/f with next draft

FROM: R A L LORD

DATE: 5 NOVEMBER 1984

cc. Principal Private Secretary
PS/Chief Secretary
Mr Scholar
Mr Evans
Mr Ridley

MR BATTISHILL

AUTUMN STATEMENT

A few textual suggestions.

Par. 2.04 add "in line with the NATO commitment".

Par. 2.10 add "partly offset by lower spending on regional aid and selective financial assistance".

Par. 2.11 redraft "higher expenditure on the redundant mineworkers payments scheme more than offsets reductions in central government financing of nuclear research and development resulting from a policy of meeting more UK AEA expenditure from charges."

Par. 2.13 add "based on experience with take-up to date".

Par. 2.19 redraft "the provision has been adjusted to reflect underspending on the court buildings programme partly offset by the continuing rise in the cost of legal aid."

Par. 2.27 redraft second sentence "For 1985/86 the government has increased provision (adjusted for changes in the responsibilities of local authorities) by just over £950m to £25.5 b."

<u>Chart 1.4</u>. The dramatic fall in the balance of trade in non-oil goods will not be reassuring to the manufacturing lobbies. Do we really need this chart ?

R A L LORD

RL

C — CU have now provided this correct version of fiscal adjustment table. Pwo

AUTUMN FISCAL ADJUSTMENT

	1983-84	1984-85	1985-86	1986-87	1987-88
Autumn Statement 1982	+1				
FSBR 1983		+½	+3½		
Autumn Statement 1983		-½			
PSBR 1984			+2	+4½	+3½

From: D R H BOARD

Date: 5 November 1984

MR MOWL

cc PPS
Sir T Burns
Mr Cassell
Mr Battishill
Mr Lavelle
Mr Odling-Smee
Miss Peirson
Mr Riley
Mr Horton
Mrs Rowlatt
Mr Ridley

AUTUMN STATEMENT, PART I: THE ECONOMIC FORECAST

Sir Peter Middleton was grateful for your minute of 2 November on the exchange rate sensitivity.

Douglas Board

D R H BOARD
Private Secretary

b/f with revised version

E.32

FROM: ADAM RIDLEY
DATE: 5 November 1984

MR BATTISHILL

cc Mr Peretz
Sir T Burns
Mr Evans

AS TEXT

A few detailed comments on the Galley proof.

Para 1.18)
Chart 1.3) It is quite striking that export vulume market shares have been so stable since 1981, and that even the value-terms measure has declined so slightly, despite the "uncompetitiveness" of the £, historical or supposed. Could one draw attention to this in 1.18? It is particularly striking if the share is consistently above the levels projected in successive TEFs.

Para 1.23 Lines 2 and 3: delete "position abroad" and insert "net assets overseas".

Para 1.40 This overlaps with 1.43. I would keep the defitional point only here, assimilating it to the end of 1.39. The substance needs to be dealt with - if at all - in 1.43, which is where investment trends are properly discussed.

Para 1.43 I would redraft substantially even on present figures, but hesitate to propose new words until the reconsideration called for by the Chancellor has been completed. Points one might want to make include

- private investment ex N. Sea. Likely to continue to do well in 85 - better than '83 if not quite up to the exceptional increase in '84; same goes *a fortiori* for N. Sea oil cos. This should more than offset

- falls in some public investment, much of which, however, is in line with Government's policy of shifting from public to private effort

- [demand on construction industry likely to continue to grow in '85 - if that is what forecasts show].

The present text uses too many depressing adjectives, and needs radical re-structuring.

Para 1.47, 1.50. Can we say nothing about any increases in self-employment, which used to feature in the earlier briefing on recent employment increases? At present the emphasis on part-time married women seems excessive.

AR

A N RIDLEY

pmp

FROM: A M W BATTISHILL
DATE: 5 November 1984

MR WYNN OWEN

cc Mr Scholar
Mr Odling-Smee
Mr Pratt

FISCAL ADJUSTMENT

You spoke to Mr Scholar about the Chancellor's request for a list of the fiscal adjustment figures published since the first Autumn Statement in 1982.

2. These are attached. For completeness I have shown the corresponding figures from the last two FSBR's as well as those shown in the Autumn Statement.

3. I trust this meets with the Chancellor's wishes.

AMB

A M W BATTISHILL

ANNUAL FISCAL ADJUSTMENT

	1983-84	1984-85	1985-86	1986-87	1987-88
Autumn Statement 1982	+1				
FSBR 1983	-½	-1½			
Autumn Statement 1983		-½			
FSBR 1984			+2	+4½	+3½

Figures wrong

2-20

FROM: K F MURPHY
DATE: 6 NOVEMBER 1984

MR PORTEOUS

cc Mr Battishill
Mr Evans
Mr Scholar
Mr Folger
Mr Culpin
Mr Gray
Mr Peretz
Mr Monaghan
Mr Needle
Mr Pratt
Miss Noble
Mr Perfect
Mr White
Mr Pilcher
Mr Rawlings

WEEKEND WORKING: 10 AND 11 NOVEMBER

I attach a list of personnel who may be required on Saturday or Sunday. At this stage, it is far from clear that all these people will be required on these days. You will be sending the people who are working on Sunday a note of the arrangements for access.

2. It is important that this list is up to date. If copy recipients are aware that other individuals are intending to come in to the office over the weekend, could they please let Mr Porteous and me know.

KFMurphy

K F MURPHY
CU

	Saturday	Sunday
EB	Mr Folger Miss Deyes Mr Collins Miss D K Smith	Mr Folger Mr Collins Miss D K Smith
CU	Mr Battishill Mr Pratt Mr Murphy Mr Edwards Mrs Hunter	Mr Battishill Mr Pratt Mr Murphy
EA	Mr Evans	[Mr Evans]
ST	Miss Noble	[Miss Noble]
IDT		[Mr Culpin] Mr Monaghan Mr Page Mr Tower Mr Evans Mr Segal Mrs Mckinney Mr Bosley
EOG (CRU & WPU)	Mr Rawlings Miss C Titmuss Mrs F Ashcroft	Mr Pilcher Miss S Robinson Miss S Bullock Miss R Patel Mrs Shah Mrs Y E Christian
Ch/Ex	Mr Peretz Mr Baillie Mr Taylor Mrs Willis Mrs Modos	[Mr Peretz] Mr Baillie Mrs Henson Mrs Willis Mrs Modos
GEP	Mr Scholar Miss Thompson Mr Gray Miss Fray Mr Perfect Mrs Dunn Mr Benjamin Mr White Ms Holman Mr Kidman	[Mr Scholar] [Miss Thompson] [Mr Gray] [Miss Fray] [Mr Perfect] [Mrs Dunn] [Mr Benjamin] [Mr White] [Ms Holman] [Mr Kidman]

FROM: P GRAY

6 November 1984

CHIEF SECRETARY

cc: Chancellor
Sir P Middleton
Mr Bailey
Mr Anson
Mr Monck
Mr Battishill
Mr Scholar

PUBLIC EXPENDITURE: CABINET ON 8 NOVEMBER: BRIEFING

I attach a first draft of a general brief for your use at Cabinet on Thursday. A further general brief on capital/current, and detailed briefs on individual programmes will be submitted during the course of tomorrow. Mr Battishill is putting forward separately a speaking note.

MLS

pp P GRAY

SECRET

PUBLIC EXPENDITURE PLANNING TOTALS

Points to Make

See main speaking note.

Factual

(i) If MISC 106 proposals on Gas/Electricity and Housing are accepted new planning totals will be:

£ billion

	1985-86	1986-87	1987-88
(a)	131.940	136.530	141.240
This compares with:			
(b) 1984 FSBR	131.6	136.2	n/a
(c) July targets	131.7	136.3	140.4
(d) Last PEWP	132.1	136.7	n/a
(e) Proposed new maximum	132.1	136.7	141.4

(ii) Leeway between (a) and (e) is some:

£ million

160	170	160

(vii) All the cuts are on capital

[See separate detailed brief on capital/current].

No - substantial economies agreed on Employment, Health, Social Security. Detailed figures for capital/current split depend on colleagues' allocations. But in any event no "right" level or proportion for capital.

(ix) Unavoidable increases due to Treasury economic assumptions

Higher prices, unemployment and interest rate assumptions than in White Paper have had an effect. But other major influences on figures - eg LA current, increased take up of benefits - of major importance.

But any concessions from MISC 106 proposals on housing should allow for 20% add-on effect on territorial block budgets.

(iii) Compared with 1984-85 plans **percentage increases** implied by totals at (e) are:

+4.7	+3.5	+3.4

(iv) Taking 1984-85 plans as 100, the **cost terms** figures implied by totals at (e) are:

100.2	99.7	99.9

(v) Planning totals at (e) give **PE/GDP ratios** falling from [ ] in 1985-86 to [ ] in 1987-88; compared with 44% in 1981-82.

(vi) Figures include **Reserves** of £3b, £4b and £5b as noted by July Cabinet.

(vii) Main changes from baseline on agreed programmes in 1985-86 (see Annex A to MISC 106 Report) are:

	£ million
LA current	+979
Social Security	+519
ECGD	+293
EC Contributions	+200
Health	+198
Defence	+105
Transport	-94
Employment	-111
Asset Sales	-500
Reserve	-750

NB These figures are before pay clawback.

FROM: A M W BATTISHILL
DATE: 6 November 1984

CHANCELLOR OF THE EXCHEUQER

cc Chief Secretary
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Cassell
Mr H P Evans
Mr Scholar
Ms Seammen
Mr Gray
Mr Ridley

CABINET 8 NOVEMBER: SPEAKING NOTES AND BRIEFING

I thought you might find it helpful to have an early version of the speaking notes and briefing for Thursday's Cabinet. We shall continue working on these tomorrow. But it would be helpful to know if you see any important omissions.

2. Mr Scholar will be sending the Chief Secretary parallel briefing on the main public expenditure issues.

3. The briefing belows falls into two parts. The first consists of speaking notes on:

(1) the public expenditure position;

(2) the Autumn Statement itself: timetable; publication; presentation; press notices; and so on;

(3) the proposals on national insurance contributions agreed with Mr Fowler;

(4) next year's fiscal prospect - and the fiscal adjustment; and

(6) the announcements about the coinage.

4. The second part consists of short factual briefs on:

(1) the PSBR and fiscal prospect;

(2) the economic prospect;

(3) the miners' strike;

(4) employment/unemployment;

(5) interest rates;

(6) the exchange rate;

(7) asset sales;

(8) the world economy;

(9) national insurance contributions.

5. The figures will, of course, need to be checked again tomorrow.

A M W BATTISHILL

CABINET, 8 NOVEMBER

CHANCELLOR'S SPEAKING NOTES

1. Public expenditure position.

2. Autumn Statement: timetable; publication; and presentation.

3. National Insurance Contributions.

4. Next year's fiscal prospect.

5. Economic prospects.

6. The coinage.

Public expenditure position

[Passage to follow on 1984-85]

Turning to the forward years, there is no doubt this has been a very difficult public expenditure round. The extent of the unavoidable additions to provision - e.g. for LA current, ECGD and other demand led services - has made it essential to seek substantial economies elsewhere.

MISC 106 has done impressive and valuable work in narrowing the gaps between spending Ministers and the Chief Secretary, and reducing the issues we have to consider collectively. Our thanks are due to all the colleagues concerned in that work.

As the Lord President's paper makes clear, the Group's proposals would bring us close to the planning totals for 1985-86 and 1986-87 which we agreed in July. But there remains a gap; and the Secretaries of State for Energy and the Environment are reluctant to accept what the Group have recommended for their programmes.

Colleagues will of course want to explore those particular issues. But, given the difficulties MISC 106's work has brought into focus, I have considered carefully whether there is any room for manoeuvre in relation to the aggregate planning total targets we agreed in July. My paper sets out my conclusions.

Relaxing the targets is not a step we should take lightly. We have, rightly, laid great emphasis on our collective determination to hold to our spending plans, and since the introduction of cash planning we <u>have</u> so far held spending for each year within the totals set when the plans were first drawn up. It is therefore essential that in announcing our latest plans for the forward years we can reaffirm our determination to stick to our guns. I shall give the House the usual full details of our plans for 1985-86; and I hope also to give a broad indication of our plans in aggregate for the two later years. The judgement of the financial markets is of particular importance this time round given the importance for the Government as a whole of a successful BT launch.

I am bound to tell colleagues that there are elements within the revised figures already agreed which the markets may discount somewhat. For 1985-86 we have increased by £500 million the estimate of receipts from special sales of assets - and it will be said, with some justification, that although we have thus reduced both public expenditure as presently defined and the PSBR, this does nothing to help monetary conditions. We have reduced the 1985-86 Reserve from £3.75 billion to £3 billion, a figure that will be described as inadequate given the 1984-85 overrun. It will be pointed out, too, that we have made no provision at this stage for any additional post-miners' strike costs in 1985-86.

So it is imperative we have a credible story to tell on the overall planning totals. I think we can just defend, as an absolute maximum, [the alternative] figures [set out in my paper] of £132.1 billion, £136.7 billion and £141.~~4~~5 billion. For the first two years the figures would be as in the last White paper; for 1987-88 the ~~increase would be marginally less than in the previous year~~; and over the period as a whole total public spending would be broadly constant in real terms. But we could not credibly present, as a convincing backdrop to the BT flotation, figures that were any higher.

figure would be as in the Budget Red Book;

Autumn Statement

Colleagues will recognise the importance of publishing the Autumn Statement with the details of our public spending decisions for next year, before the start of the BT flotation at the end of next week.

There is also considerable tactical advantage for us in getting the Autumn Statement out before the economic debate on the Queen's Speech on Tuesday.

So I have made arrangements to accelerate the printing timetable so that I can make a Statement to the House on Monday afternoon, and publish the printed Statement immediately afterwards.

The timetable is extremely tight (4 days shorter than usual) and depends on the printers working throughout the weekend. This, in turn, means finalising the text of out public spending decisions by close tomorrow. I realise this gives Colleagues very little time. But officials are in touch and I should be grateful for Colleagues' help in meeting the deadline.

Also very important that we get the presentation right. Some very difficult decisions which will need handling with great care. We must present our decisions in the most positive way we can.

Prime Minister, sure you will want all Colleagues to take part in this. But particularly important that Departmental Ministers should take the lead in explaining decisions on spending programmes for which they are responsible. Hope as many as possible will issue press notices on the day of the Autumn Statement. I shall, of course, cover the general position in my Statement to the House.

<u>National Insurance Contributions</u>

Colleagues will also want to know about next year's national insurance contribution levels, which I have been discussing with Norman Fowler.

We have considered whether there should be a reduction in contribution rates this year. But given the uncertainty over next year's fiscal prospect it would be wrong, in my view, to give priority to reducing NIC rates now.

So we are agreed that there should be no change in contribution rates from next April. Employers will get the full year benefit of the abolition of NIS, and their combined payments of NIS and NIC in 1985-86 will be no more in cash terms than in 1984-85 - a substantial reduction in real terms. [If pressed - we might want to look again at the prospect for a reduction in the employer rate next year.]

As usual, the earnings limits will need to go up and there will be a further reduction in the Treasury Supplement to bring it down to 9 per cent.

These changes will be outlined in the Autumn Statement and Norman Fowler will give further details on Monday afternoon.

Fiscal Prospect

At Budget time the FSBR contained a forecast fiscal adjustment for 1985-86 of £2 billion. This assumed we kept next year's public spending to the White Paper figure after adjustment for the NIS and VAT changes in the Budget.

I told colleagues on 4 October that the room for tax cuts next year had already receded a little from that figure.

There are a number of opposing factors here. On the one hand, higher North Sea oil revenues this year look like continuing into next year. Against that, debt interest, because of higher borrowing this year and somewhat higher interest rates, is forecast to be markedly higher than we expected at the time of the Budget. Local authority borrowing also looks like being quite a bit higher than in the Budget forecast, even allowing for the cut in housing proposed by the Chief Secretary. And, compared with October, we have effectively increased the planning total by almost £½ billion by agreeing to keep within the White Paper figure and ignore the net saving on NIS.

I cannot say precisely how the fiscal adjustment will come out. I shall need to review the figures urgently in the light of the decisions we have taken [will take] this morning. It will not be as much as £2 billion. And whatever figure we publish, it is crucially dependent on the miners' strike being over by Christmas. This adds a further uncertainty to the usual wide margins of error surrounding the forecast at this stage of the year.

But, if the economy develops broadly on the lines I expect, there is a reasonable prospect of being able to afford some tax cuts in the Budget - meeting our promise to lower the overall burden of taxation and justifying the very difficult decisions we have had to take this year on public spending.

But I must repeat. Failure to get back to the White Paper figure would mean the prospect of cutting taxes is that much less. We cannot use the same money twice over.

Economic Prospects

Apart from unemployment, the economic prospects are encouraging. And there is quite a good story to tell in the Industry Act Forecast which I have to publish in the Autumn Statement.

We are in the fourth year of growth, with continuing low inflation and no signs of the resurgence in inflation which has stopped previous recoveries.

But there are two great uncertainties; the effect of the miners' strike at home, and the future course of US policy, and their budget deficity, on the world.

Assuming no dramatic change in US policy, US growth may fall off next year. Although offset somewhat by growth elsewhere, overall world growth may be rather less than the 5 per cent likely to be achieved in 1984. We cannot count on US interest rates and the dollar coming down smoothly in 1985: there are risks that US interest rates could go up again. There are no obvious inflationary pressures in the world economy.

In the UK, the miners' strike clouds the outlook. Apart from the PSBR and public expenditure effects, the strike has reduced growth in 1984 by 1 per cent and reduced our balance oftrade by £2 billion. Assuming the strike ends by Christmas, growth next year should bounce back.

Against this background the main features of the forecast are as follows:

(i) Growth in the year to the first half of 1984 was 3 per cent; and with continuing growth in both business investment and consumers' expenditure, growth in 1985 should again be substantial: perhaps 3½ per cent, including 1 per cent recovery from miners' strike.

(ii) Inflation to the end of this year should be about 4¾ per cent - very close to ~~over~~ our Budget forecast, and better than most outside forecasts; and I expect to see some further progress to lower inflation in the course of 1985.

(iii) A welcome rise in employment over the past 12-18 months, in line with previous recoveries. But, many new jobs have gone to marreid women working part-time and others not on the unemployment register (we have also seen a rise in self-employment). So disappointingly unemployment has continued rising. New jobs will continue to come, but effect on unemployment depends crucially on moderation in real wages.

(iv) Average earnings have risen 7½ per cent this year (after adjusting for the miners' strike); and look like rising by 7 per cent next - that is what is making the task so difficult, and why those with jobs are destroying prospects for those without.

(v) Interest rates are falling again (with the mortgage rate coming down) while monetary targets should continue to be met.

Unemployment remains a very serious worry. Measures we are taking to reduce the labour market rigidities will help. But until real earnings moderate substantial progress on unemployment will be slow in coming.

Our tough decisions of previous years are being fruit. But we cannot afford to relax now. The jobs prospects will be helped by lower taxes; we cannot put them in jeopardy by easing up on public spending just when it matters most.

The coinage

I am proposing to announce 3 changes in the Statement:

(a) the Bank will stop issuing pound notes after 31 December, although they will remain legal tender for at least a year some time ahead (perhaps 12 months or so);

(b) the ½p will no longer be legal tender after 31 December (subject, of course, to the Privy Council's approval);

(c) a new £20 note [illegible] will be introduced on 15 November.

2. Like other departments the Treasury has had to face up to painful decisions to stay within its baseline, because of the continuing costs of financing stocks of unused coin and producing uneconomic notes. Ending the note saves over £3m a year.

3. We have evidence that the public are now accepting the coin more readily. Circulation with the public is rising. There never was a large post bag criticising the coin but even that has fallen away. With few exceptions the banks, retailers, the vending industry and machine users all say they want an end to uncertainty.

4. Although the decision is triggered by public expenditure pressure, it is one which stands on its own merits. People treat the note like a coin (stuffing it in pockets and purses) The note has deteriorated badly because notes are returned to the banks less frequently to enable them to be replaced by new ones.

5. Plastic notes are not a viable alternative because of the forgery risk, and because coin is cheaper;

6. Other European countries (and Japan) have coins at or above £1 value.

7. There are ample stocks of £1 coins.

8. We have given the public 18 months to get used to the coin.

[9. <u>For use if needed</u>

We are making no change to Scottish notes which will continue in Scotland for as long as the Scottish banks want. That is what was agreed earlier with George Younger.]

10. Demonetisation of the ½p completes the withdrawal of this unwanted coin which I announced in February.

11. The new £20 note will contain improved security features to counter forgery.

Planning total +1½
Debt Int +½
+2
Exp
NS tax 1½
Plus −¼
1¼
Diff ¾

Brief 1

PSBR and Fiscal Prospects

1984-85

Factual

(i) PSBR now expected to be about £8½bn, 2½% of GDP - some £1¼bn higher than Budget forecast of £7¼bn, but lower than in 1983-84 (£9¾bn, on new definition, ie 3¼% of GDP). But still large margin of error (± £2bn) in forecast.

(ii) Reasons for £1¼bn increase:-

	£bn
Miners' strike	+ 1½
North Sea oil taxes (incr-)	- 1½
Debt interest (mainly higher int. rates)	+ ½
Personal taxes(incr-)(int.rates increasing mortgage tax relief)	+ ¼
Local authority borrowing (cap. overspends in 1983-84 and 1984-85)	+ ¾
Special asset sales (incr-)	- ½
EC net contribution	+ ½
Other (net)	- ¼
	+ 1¼

9? RESERVE

(iii) Pub. exp. planning total now expected nearly £128bn, about £1½bn higher than in FSBR, ie broadly public expenditure cost of miners' strike.

1985-86

Factual

(i) PSBR will by convention be shown as unchanged in Autumn Statement from MTFS path in 1984 FSBR, ie 2% of GDP = £7bn. Any differences from forecast of exp. or revenue will mechanically feed through to fiscal adjustment, which was £2bn in FSBR.

(ii) On assumptions in (i), fisc. adj. represents scope for lower taxes in next Budget. If pub.exp. plans increased, scope reduced.

(iii) Margin of error in forecast of fisc.adj. in 1985-86 large: even now ± £5bn. Therefore altho' fisc.adj. was forecast positive (tax cuts) last March, could turn out negative in next Budget forecast, ie needing tax increases.

(iv) North Sea oil revenues now forecast higher than last March despite recent cuts in oil prices. But likely to be offset, at least partially, by increases elsewhere:

- debt interest more than £1bn higher (higher PSBR in 1984-85 and higher int. rates).
- local authority borrowing: Budget forecast for 1985-86 was under £1bn, looks v.low in relation to 1983-84 (£1¼bn) and 1984-85 (could be £2bn), even allowing for LA housing cuts proposed by CST.

(v) These compositional changes in PSBR suggest need for, if anything, greater fiscal restraint, ie restrain pub.exp.

Positive

(i) Essential to continue progress in getting borrowing down within MTFS framework, if interest rates to be reduced further.

(ii) Provided keep PSBR on MTFS track, PSBR will fall between 1984-85 and 1985-86.

Defensive

(i) North Sea taxes higher than previously forecast - can afford more pub.exp?
NS revenue likely to decline quite sharply in a year or so. Therefore cannot afford to set pub.exp. on new higher path.

(ii) US budget deficit has boosted US output and employment? UK should copy?
May be short run effects, but has caused high interest rates and present position is unsustainable. Main factor underlying better US performance on jobs is freer operation of markets.

1986-87 and 1987-88

Factual

(i) Budget forecast showed continuing positive fiscal adjustments, with PSBR falling only slowly as % of GDP (to 1¾% in 1987-88). Forecast revenues, on unchanged policies, grow broadly in line with economy while expenditure restrained.

(ii) Margins of error enormous. Small changes in eg economic growth could turn fisc.adj. negative.

(iii) Annual fisc.adjs. reducing in Budget forecast after 1986-87 (as North Sea taxes decline): £4½bn in 1986-87 and £3½bn in 1987-88 and 1988-89.

(iv) Latest forecast not v. different, even though decline in NS taxes expected a year later.

Positive

(i) Provided pub.exp. still restrained, further tax cuts possible.

Defensive

(i) Revenue growth at risk from possible lower economic growth and decline in NS taxes. Essential not to put pub.exp. on new higher path.

BRIEF 2

ECONOMIC PROSPECTS

Factual

(i) Forecast in Autumn Statement has to make working assumption about miners' strike - assumed to be over by end of year.

(ii) Underlying inflation likely to remain on downward path. 4¾ per cent increase in year to 1984Q4 and 4½ per cent to 1985Q4. (4¾ per cent also forecast as the annual increase to May 1985.)

(iii) Total output expected to grow 3½ per cent in 1985 following 2½ per cent this year. Coal strike is expected to reduce total output this year by 1 per cent, so underlying growth is 3½ per cent in 1984 and 2½ per cent in 1985.

(iv) Manufacturing output forecast to rise by 2½ per cent in 1985.

(v) Growth next year expected to be based on higher consumer spending (+3½ per cent), higher non-oil business investment (+6 per cent) and higher exports (+4 per cent).

(vi) Despite higher fuel imports this year (over £2 billion) due to miners' strike balance of payments current account expected to be in broad balance in 1984. Next year, with fall in fuel imports and rising invisible surplus, current account should be in sizeable surplus (£3 billion).

(vii) Total employment likely to continue rising but no immediate prospect of major fall in unemployment.

Positive

(i) Sustained growth of output over four year period, 1981 to 1985, averaging nearly 3 per cent a year.

(ii) Despite falling exchange rate, inflation held at low level (this year is third year below 5 per cent) and further reductions well within reach.

Defensive

(i) Outlook for unemployment bleak? No shortage of demand in economy. Employment has been rising and will continue to do so but unfortunately, partly due to rigour of recovery, so have numbers wanting jobs. Lower unemployment really does require more realistic real wages and conditions in which markets can work.

(ii) Economy set to turn down next year? Unrealistic not to expect some year to year variation. But even next year's expected underlying growth good by post-war standards - same as average for post-war period as a whole and not far below average of 1960s.

BRIEF 3

COST OF COAL STRIKE

Factual

(i) Effect of dispute on PSBR and Public Expenditure If strike ends at Christmas, will add about £1¾ billion to the 1984-85 PSBR*. Public expenditure effect £1.3bn.

(ii) Effect on growth. Effect is to reduce GDP by about 1 per cent, so that growth in 1984 will be 2¾ per cent: growth in 1985, after a bounce back, will be 3¾ per cent.

(iii) Effect on oil and coal trade balance. Strike has affected oil and coal trade balance by about £1¾ billion in first 9 months of 1984.

Defensive

(i) Oil revenue increases offset coal strike costs - net effect is small? No link between higher oil revenues (which arise mainly from higher than expected production and higher dollar price) and coal strike. No justification for offset.

(ii) The right figure is the cost of strike to date (or to the date it is assumed to end). This is much lower than the Treasury's estimate? No. The right figure to give in the Autumn Statement is the full 1984-85 effect including costs like holiday and redundancy pay, which will be incurred after the strike is over. Treasury estimate based on D.Energy's ready reckoner*.

*See annex for details.

COST OF COAL STRIKE

In the House, the Chancellor said that, if the coal strike ended at Christmas, it would add about £$1\frac{1}{2}$ billion to the 1984-85 PSBR.

2. Mr Walker has in the past been unhappy about the Treasury's methodology for calculating the costs of the strike. Essentially our methodology seeks to estimate what the strike up to a certain date adds to the public expenditure and PSBR outcome <u>for the year</u> 1984-85.

3. Mr Walker prefers to estimate what the strike up to a certain date adds to public expenditure and the PSBR <u>to that date.</u> The difference between the two approaches centres on the treatment of cash so far not paid but which will be paid when the strike ends. The specific terms involved are holiday pay (£120 million) and redundant mineworkers payments (RMPS) (£60 million to end September).

4. This debate about methodology is <u>irrelevant</u> to the figure given by the Chancellor in the House. The figure in question was clearly stated to be on an assumption about the ending of the strike and was clearly stated to be a forecast for 1984-85 outcome. Only the Treasury methodology can supply an estimate on this basis. Mr Walker's figure would have produced an estimate of the addition to the PSBR for the first nine months of 1984-85 (i.e. to 31 December) a strike ending at Christmas.

5. If Mr Walker asks about the precise figure, it is taken directly from the ready reckoner agreed with his department. We adjusted the resulting figure by assuming, first, that RMPS would be underspent by £100 million in 1984-85 as there would not be time in the last 3 months of the year to get all the money out. We also made an assumption of post strike costs of £100 million - largely reflecting the time it will take to run down to normal levels of oil-burn.

6. If anybody asks, the public expenditure component of the £$1\frac{1}{2}$ billion PSBR figure is £1.3 billion.

BRIEF 4

EMPLOYMENT AND UNEMPLOYMENT

Factual

(i) Adult unemployment (seasonally adjusted) rose on average 15 thousand per month in six months to October. Recent monthly path has been erratic - October increase only 3 thousand following rise of 26 thousand in September.

(ii) Employed labour force (including self employed) rose 250 thousand in year to June 1984: service sector employment rose 280 thousand while manufacturing fell 60 thousand (most of this fall was in 1983). Part time female employment up 165 thousand. Stock of notified vacancies is back on upward trend. October figure 6 thousand higher than in July and highest level since March 1980

(iii) Simultaneous rise in employment and unemployment over past year due to resumption of growth in labour supply. Many new jobs have gone to people not previously claiming benefit (eg women seeking part time work).

(iv) Miners' strike may have harmed employment - through confidence effect on interest rates and, more locally, through pressures on NCB suppliers and retailers in mining areas. But effects impossible to quantify.

(v) Survey of company executives conducted for CBI found balance of +5 per cent expecting higher employment in 12 months and +17 per cent expecting higher employment in 5 years. Fastest growth expected in services and among small and medium sized firms.

(vi) Continued rise in claimant unemployment possible: upward trend in labour force projected; more employment growth expected but many new jobs likely to be for part timers; further real wage growth expected. Most outside forecasters now expect small increases in unemployment through 1985.

(vii) Current unemployment assumption for public expenditure plans is 3.0 million (GB excluding school leavers) for 1984-85 and after. October 1984 figure was 2.98 million.

(viii) Public expenditure survey identified significant reduced requirements for Special Employment Measures (SEMS) - saving of £220m in 1985-86, mainly reduced take up of YTS. Partly offset by agreed expansion of Enterprise Allowance from 50,000 places in 1984-85 to 62,500 in 1985-86 and subsequently. Nevertheless net reduction of £168m in SEMS expenditure in 1985-86 - larger reductions in later years. (Overall effect of these reductions is to increase counted unemployment by 70,000, according to D.Emp.)

Positive

(i) More jobs being created - employment up ¼ million in year to June 1984.

(ii) New jobs going to most flexible and least unionised workers - self employment up about 70 thousand a year since 1981; more part timers.

(iii) Productivity in manufacturing at record level - up about 6 per cent in 1982 and 1983, though growth has slowed recently.

Defensive

(i) Unemployment still rising - outlook bleak? Employment up ¼ million in year to June 1984 and growth expected to continue. But labour force also growing fast and many new jobs - especially part time jobs - going to women not previously claiming benefit. Faster progress on jobs will be helped by slower real wage growth, as demonstrated by US experience. Contrast UK where real wages have risen 3 per cent in each of the past 2 years.

(ii) Why cut Special Measures, given bleak outlook? Reductions due largely to savings from low take up. Some expansion of the measures (eg Enterprise Allowance) has been possible.

CONFIDENTIAL BRIEF 5

Domestic Monetary Conditions

Factual

(i) Both targeted aggregates, £M3 and MO, are on target. Table below shows growth rates in key aggregates.

% change, seasonally adjusted

	Banking October	Latest 6 months	Latest 12 months	Since start of 1984-85 target period (8 months)
		annualised growth rates		
MO	+¾ (0.8)	6¾	5½	6 (target 4-8)
£M3	+¼ to ½ (0.3)	8¾	8¼	9¼ (target 6-10)
M2	+1 to 1¼(1.2)	..	13¼	..
PSL2	+1 (1.1)	15	13½	15½

* not seasonally adjusted

(ii) Money market interest rates down, at end of last week, following falling US rates. Bank cut its dealing rates on 5 November, and some clearing banks (only Barclays and National Westminster by close 6 November) plus Lloyds responded with base rate cut of ½ per cent the following day.

	UK 3 month interbank	3 month Eurodollar	Bank base rates
14 March	8 13/16	10 3/8	8¼ to 8½
25 June	9 7/16	12 3/16	9¼
6 July	10 5/16	12¼	10
11 July (UK base rate peak)	11 7/8	11 7/8	12
17 August (base rate fall)	10½	11 7/8	10½
19 October	10¼	10¼	
2 November	10¼	10	
6 November (latest base rate fall)	9 15/16	9 3/4	10

Positive

1. Monetary conditions are satisfactory. [Recent behaviour of exchange rate reflects industrial unrest and oil price worries, not adverse domestic monetary conditions].

2. With Tuesday's base rate reduction, interest rates now recovered from sharp rise in July, and back on downward trend.

Defensive

Interest rates still too high? Base rates recovered from July increase. Scope for lower rates depends on maintaining sound monetary conditions, and on developments in domestic industrial situation and in US.

Monetary policy too tight? No. Target aggregates in target range, no evidence that these aggregates are giving the wrong signals.

* Note on impact of US Election to follow.

EXCHANGE RATE

Factual

* Sterling index risen 3 per cent, to 76.2, since all-time 74.0 low on 19 October (compares with September average of 77.3). Rise largely reflects effects of weaker dollar but there has also been a modest gain against the deutschemark.

* Against dollar, sterling risen 6½ per cent, to $1.26 (same as September average), since all-time $1.1830 low on 18 October.

* Against deutschemark, sterling risen 1¼ per cent, to DM 3.72, since low of DM 3.67 on 19 October (compares with September average of DM 3.81).

* Dollar has fallen sharply from DM 3.14½ on 15 October to DM 2.95 (6 per cent fall largely on softer US interest rates).

* 3 month eurodollar rates down over 1½ per cent from 11½ per cent at end September to 9 7/8 per cent. 3 month interbank rates down less from 10¾ per cent at end September to 10 per cent. Short-term deutschemark rates little changed since end-September (around 5¾ per cent).

Positive

* Sterling has recovered, benefitting from a weaker dollar but also gaining against the deutschemark. Market concerns over oil prices have also eased.

* Dollar has fallen back by around 6 per cent from its mid-October highs. US interest rates have fallen as have short-term UK rates.

* Sterling has absorbed well Bank's dealing rate cuts.

Defensive

* <u>Sterling still vulnerable?</u> Pound is trading largely on sidelines. Bank's dealing rate cuts absorbed well. Austin Rover dispute has had no impact on sentiment.

* <u>EMS?</u> Uncertainty over effects of dollar and oil prices on European currencies, notably on £ and DM, do not represent the stable conditions being sought before ERM membership can be contemplated.

[N.B. Latest exchange and interest rates quoted relate to those at the close, 5 November].

BRIEF 7

SPECIAL SALES OF ASSETS

Factual

Net proceeds from special sales of assets forecast at £2.5 billion in 1985-86 (an increase of £500 million) and £2 billion in 1986-87 and 1987-88.

Defensive

(i) 1985-86 forecast reflects revised estimates of receipts and likely timing rather than an acceleration of programme.

(ii) Although some flexibility at margin of programme, major sales take 2 years or more to organise. Only major sales currently in prospect are BT, BA, ROFs. Planned receipts in any one year must take account of likely market capacity.

(iii) Must not view asset sales as an alternative to public expenditure control. Shares can only be sold once. Already apparent that programme cannot be maintained at planned level unless decisions taken on eg energy privatisation and airports.

(iv) BT 2nd and 3rd cash calls timed for June 1985 and April 1986 not both in 1985-86 as recently wrongly reported in a press article. [NB approx £1bn BT receipts in 1985-86 and 1986-87.]

(v) Government residual shareholdings as follows:

<u>BAe</u> £350m (can be sold any time if Special Share created but NB possible GEC bid)

<u>BP</u> £2¾bn (sales possible September 1985 onwards)

<u>Britoil</u> £550m (can be sold any time)

<u>C&W</u> £350m (sale possible December 1985 onwards)

Forecasts for future years include progressive sales of residual shareholdings in line with market capacity. Cabinet will not expect me to reveal details at this stage.

BRIEF 8

PUBLIC EXPENDITURE CABINET

WORLD ECONOMIC DEVELOPMENTS

Factual

(i) Output in major countries rose by 5 per cent in H1 1984. US growth weakened since and European output distorted by strikes. Growth forecast to slow to 3½-4 per cent in 1985 as US activity moderates and European growth fails to pick up sharply. OECD unemployment rate levelling off at 8½ per cent. But European jobless could approach 20 million next year.

(ii) Group of 7 consumer price inflation declined from 12 per cent in 1980 to about 4½ per cent over year to September. No further fall expected as slight rises in US offset further falls in Europe.

(iii) Three-month interest rates in the US have fallen from their July peak, of around 12 per cent to just under 10 per cent now. Long bond yields have also declined. Both nearly down to levels at start of year. Rates in continental Europe have shown little movement.

(iv) The US trade deficit reached $96 billion in the 9 months to September. The dollar has eased since its mid October peak.

(v) Monetary growth in the major countries generally within target.

(vi) Group of 7 general government financial deficit rose from 1¾ per cent of GDP in 1979 to 4 per cent last year. OECD (July) expect it to fall to 3½ per cent this year and next.

Positive

(i) World activity, especially trade, recovered unexpectedly rapidly this year. Investment particularly strong. No major reacceleration of inflation likely. Prospects better than for many years.

(ii) London Economic Summit and IMF Interim Committee Meeting agreed to continue with disinflationary monetary policy, further action to curb budget deficits and reduce structural rigidities.

Defensive

(i) US budget deficit? Welcome downpayment package to cut deficit by $150 billion in FY 1985-87. Recognise further measures needed as present deficit is unsustainable. Reagan promises long-term plan to cut the deficit in budget for FY 1986 to be released January 1985. Without further measures deficit may be £200m by 1987. Deficit raises interest rates and inhibits recovery which in US is due primarily to tax cuts and flexible markets.

(ii) More rapid European expansion urged by EC's Annual Economic Report. Report is work of Commission. Not yet considered by Council of Ministers. Accept Europe not yet fully shared in recovery. Agree structural impediments, especially in labour markets to growth should be curbed. Fiscal expansion only dissipated in higher inflation.

EF2
6 November 1984

BRIEF 9

8. National Insurance Contributions

Factual

i. Main proposals:

a. No change in Class 1 employers and employees rate. Full Class 1 rate stays at 10.45% for employers, 9% for employees.

b. LEL up from £34 a week to £35.50.

c. UEL up from £250 to £265.

d. Treasury Supplement down from 11 percent to 9 percent.

ii. Secretary of State will also announce that employers are to be relieved of cost of NICs on SSP-taking effect in 1985-86, although extension of SSP to 28 weeks not applying until 1986-87. Present rules that make directors personally liable for company's unpaid NIC bills (Section 152(4) powers) to abolished.

iii. Proposals likely to mean surplus on fund of [£500 million] taking cumulative balance to [25 %] compared with recommended minimum of 16½%.

Positive

i. Proposals mean that main rates are held constant for second year running, despite ever increasing expenditure on benefits.

ii. Table 3.1 in Autumn Statement will show total (NIC + NIS) bill in 1985-86 the same in cash terms as 1984-85.

Defensive

i. Cutting employer's rate "to help jobs" would pre-empt substantial proportion of fiscal adjustment - just not sensible given all the uncertainties. ½ per cent off employer rate would cost £600 million gross (or £400 million net of public expenditure clawback - colleagues are probably not aware of that)

ii. Government has already done a lot for employers. Staged abolition of NIS has been worth £3 billion to private sector employers. Effect of last stage of abolition only just being felt. Took effect from 1 October, scarcely more than a month ago. Not clear yet how far abolition has created jobs or just helped to finance excessive pay settlements.

iii. Table 3.1 will show a very good story - no cash increase in total NIC plus NIC bill, implying very substantial real reduction. CBI asked for "no real increase".

iv. It is the contribution rate that effects the PSBR, not the Treasury Supplement. Once rate is set, cut in Supplement is no more than internal book keeping: reduces the surplus on the fund and hence the amount of money the fund has available to "lend" back to the Exchequer. (Cut is, of course, nevertheless important, by reducing the surplus on the Fund it reduced pressure for a cut in the contribution rate).

v. LEL set at level required by present legislation (ie equal to single rate retirement pension, rounded down.) UEL also maximum permitted which existing statute. Good arguments for changing legislation for future and would certainly like to look at that for next year. But gives all the difficulties this autumn, and need to get legislation through Commons by Christmas, no real option but to stick to present rules for 1985-86.

vi. Mustn't fall into trap of thinking of NICs as crude payroll tax. Contributions earn entitlement to benefit, and earnings limits integral part of SERPS calculation. Have to work out both sides of equation before radical decisions taken - cf Fowler pensions review.

4.56

SECRET

RP

FROM: MISS M O'MARA

DATE: 6 November 1984

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Littler
Mr Cassell
Mr Monck
Mr H P Evans
Mr Scholar
Mr Gray
Ms Seammen
Mr Pratt
Mr Ridley
Mr Lord
Mr Portillo

MR BATTISHILL

AUTUMN STATEMENT

The Chancellor and other Treasury Ministers discussed your minute of 2 November with you and other officials yesterday afternoon.

2. The Chancellor suggested it would be helpful if discussion were confined to a number of key issues and asked those present to send any detailed drafting comments on the Autumn Statement to you separately.

(i) Fiscal Adjustment: It was agreed that a figure of either £1½ billion or £1 billion should be used for the fiscal adjustment, depending on the outcome of Thursday's Cabinet. The Chancellor asked Sir Terence Burns to produce a note suggesting how each of these figures might best be presented to Cabinet. Reference might, for instance, be made to the £1 billion increase in debt interest and to the effect of a falling dollar on

North Sea revenue. The Chancellor asked Mr Evans for a separate note indicating what assumptions would need to be made in the forecast to produce a fiscal adjustment of this size. He questioned, for example, the large increase forecast in the yield of Corporation Tax.

(ii) Publication of public expenditure figures for the whole Survey period: It was agreed that, given the time constraints, it was probably better on balance not to attempt to publish figures for the full 3 year period. The Chancellor might simply tell the House that the public expenditure planning total would remain broadly flat in cost terms over the Survey period.

(iii) Inflation assumption for Part 4: It was agreed that the figure of 4¾ per cent should be used for revalorisation of the main direct tax allowances and thresholds and the excise duties in 1985-86.

(iv) Investment forecast: The Chancellor asked Sir Terence Burns to take a very careful look at the figures shown for the percentage change in private housing investment and public sector investment in the table on page 3 of Mr Evans' note on the forecast. He found them implausible and suggested that it would be useful to compare them with the projections of outside forecasters. The outcome could affect the text of paragraph 1.43 of the Autumn Statement.

(v) Oil price: It was agreed that the final sentence of paragraph 1.59 of the Autumn Statement should read "Estimates of oil revenues assume that dollar prices for North Sea oil do not change very much from their present levels."

(vi) Exchange rate: The Chancellor asked Mr Evans to consider whether, in the light of recent exchange rate movements, the exchange rate assumption could be expressed in the conventional terms - ie. that the rate would remain "broadly around its present level".

(vii) Public expenditure plans: It was agreed that Table 2.1 should contain 4 columns, showing both the White Paper plans and those plans adjusted for Budget changes, even though this would expose the way in which NIS had been treated.

(viii) NIC: The Chancellor asked Ms Seammen to discover whether the Government Actuary's Department felt their figures were sufficiently uncertain to enable them to revise down the estimate of the total payment of National Insurance contributions by employers in table 3.1 so that the total change summed to zero.

(ix) Presentation: The Chancellor stressed that the spending departments should take on some of the burden of presenting the Autumn Statement. He asked you to discover what press notices they intended to issue. If necessary, he would need to brief the Prime Minister to raise the point at Cabinet.

MOM

MISS M O'MARA

CONFIDENTIAL

ECONOMIC SECRETARY TO THE TREASURY

FROM: A M ELLIS
DATE: 7 November 1984

PS/CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State
Sir P Middleton
Mr Cassell
Mr Monger
Mr Lord
Mr Isaac) IR
Mr Bryce)
PS/IR

CGT REFORM

Since this subject was discussed by Ministers on Monday, the Economic Secretary has seen the Financial Secretary's note of 2 November. He feels that, since CGT is for most people the only capital tax about which they are concerned, a budget dealing with capital taxes ought to include measures dealing with CGT.

2. The Economic Secretary also thinks that one of the very simple systems would be preferable. However, he would be more inclined than the Financial Secretary to try to deal with past and future gains all in the same budget if possible.

3. The current provisions for indexation of the cost of pre-1982 acquisitions are, however, so extremely mean that it ought not to be too expensive to buy them out, if not fully, then on terms which would be considerably more favourable to the taxpayer without incurring too heavy a revenue cost. However, if this does not prove practicable, he would support the Financial Secretary's suggestion that the future and the 1982-85 period should nevertheless, if possible, be dealt with in the 1985 Budget.

A M ELLIS

←E32 ~~BUG~~ SECRET 12/11/84.

Mr PORETZ.

cc Sir P Middleton
Sir T. Burns
Mr Bailey
Mr Evans
Mr Scholar
Mr Fryer
Mr Gray
Miss Noble

AS:

CHANCELLOR'S ORAL STATEMENT.

You asked for urgent comments on the final draft. Please excuse this very hurried manuscript!

p. 2 Third para from end.

Could one not helpfully reorder by bringing the IVB point to the front, viz

" Again, spending on social security will increase, in part because we have decided to restore from next November the 5% abatement of invalidity benefit which has applied since 1980. To help finance part of these increases, my RHF will be announcing....

p.3. line 5.

First, if one aggregates IBAP (+£180m ~~£180m~~ on PEWP estimate) and domestic agriculture (-£90m) total Agriculture ~~[illegible]~~ spending is up in '85/6, not down as the draft implies. I would say e.g.

" There will be increased provision for ~~[illegible]~~ assistance to Agriculture overall, which will be partly offset by reductions in grants."

Second could one also put the Housing picture in a better light by saying e.g

"There will be only a modest reduction in capital spending on housing, and, in addition, significant extra receipts from council home sales & other disposals"?

P4 Second para.

Could one make a little more of the Sick Pay point? And in so doing make it crystal clear that the employers will be relieved of significant contributions to offset the extra costs they will meet? I would try e.g

"In addition [not "but" as at present, which creates a misleading antithesis] employers will no longer .... sickness. This will reduce their contributions by around £30m in 1985/6".

P5. Fourth Para on investment.

One could strengthen by ~~saying~~ adding that investment is likely to rise significantly to a further record level next year.

P6. Fifth para on Employment.

Tho' estimates for self employment are tentative, one could if one wished drag them in by redrafting e.g.

"Employment and, in all probability self-employment, have been rising..."

AR 12/11/84

FROM: MISS M E CUND
DATE: 12 November 1984

MR RIDLEY

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Battishill
Mr Beastall
Mr Folger
Mr Lord

BRIEFING FOR AUTUMN STATEMENT: PRIVATE FINANCIAL FLOWS

You asked for a run of figures showing private financial flows to developing countries since 1979. These were as follows:

£ million

	1979	1980	1981	1982	1983
Private financial flows	5277	4527	4596	2462*	2581*

It may be of interest to compare these figures with official flows (official development assistance and export credits) in the same years:

Official flows	1083	726	1253	1117	1195
Totals	6360	5253	5849	3579	3776

margaret cund

M E CUND

*These figures differ slightly from those in my minute of 9 November; the above reflect more precisely the private/official split within the totals.

From: P Mountfield
Date: 12 November 1984

CHANCELLOR OF THE EXCHEQUER 12/12

cc
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Littler or
Mr Bailey
Mr Unwin or
Mr Anson
Mr Scholar
Mr Ridley
Mr Lord
Mr Portillo
Mr Beastall or
Mr Legg
Miss Cund

C
I don't think this is needed for your folder.

AUTUMN STATEMENT: CUTS IN THE AID PROGRAMME

Mr Ridley suggests that all Treasury Ministers and advisers should have the details about cuts in the aid programme and aid to Ethiopia. Some of this material may later be useful for briefing.

2. The key facts are these:

a. At no time in the last few months (bilaterals; star chamber; trilateral; or Cabinet) has the Foreign Secretary based his case for more resources on the need to do something about African famine relief. The only bid was for the last two years, to maintain UK aid at the present level 0.35 per cent of GNP.

b. In July, the Treasury was asked at official level to sanction a transfer of £5 million from ODA's internal Contingency Reserve, specifically for African famine relief. (Ethiopia was not specially mentioned in this context). That request was granted immediately.

c. In 1983-84 and 1984-85, taken together, ODA has allocated £13 million - so far - to Ethiopia, most of it for famine relief. This included funds channelled through EC's institutions.

d. The Cabinet decision was to maintain the FCO/ODA combined programmes at the baseline established in last year's White Paper. This is the figure which appears in the Autumn Statement. The Foreign Secretary was left a free hand in allocating this.

e. So far he has taken no decision. Press speculation that the aid programme is to be reduced by £160 million, £100 million, or £50 million (all figures which we have seen quoted) is baseless. The maximum we think is at risk is £33 million, which is the total of the Foreign Secretary's bids for the diplomatic wing. In practice, the transfers are likely to be somewhat less than this.

f. The aid programme (about £1100 million in 1984-85) always contains at the start of the year a substantial unallocated margin. At the beginning of the current year, for example, this was £46 million, of which £3.5 million was tentatively earmarked for disasters and £6.5 million for refugees. Since then, the £5 million referred to above has been specifically earmarked for these purposes and much of it has been spent. Outside the unallocated margin, there was provision of about £20 million for bilateral food aid, some of which went to Ethiopia, and a much bigger figure for EC food aid.

g. In the draft aid framework for 1985-86 (before the Cabinet cuts) £1.5 million was allocated for bilateral aid to Ethiopia; £19 million for food aid; £65 million for community food aid; and about £80 million was left unallocated. Provision for disasters and famine relief would normally come out of this unallocated margin, but it is this which is most likely to be cut back as a result of the Cabinet decisions and subsequent transfers to the Diplomatic wing.

3. The conclusions to be drawn from this are:

i. That the Treasury, and indeed the Cabinet, has not screwed down the aid programme on Ethiopian or other African famine relief;

ii. That there is still plenty of room, even within the reduced programme, for these purposes.

PM

P MOUNTFIELD

DEPARTMENT OF EDUCATION and SCIENCE

Elizabeth House York Road London SE1 7PH Telephone 01-928 9222

187/84

12 NOVEMBER 1984

PRESS NOTICE

EDUCATION AND SCIENCE EXPENDITURE FOR 1985-86

Details of the Government's expenditure plans for education and science in 1985-86 were announced in the House of Commons today by Sir Keith Joseph, Secretary of State for Education and Science.

In a written reply to a Question from Mr Gerald Bowden, MP for Dulwich, who asked if the Secretary of State would make a statement about expenditure on education and science in 1985-86, Sir Keith said:

"As my rt hon Friend the Chancellor of the Exchequer announced in his statement today, provision for education and science will be increased by £210 million to £13,590 million from the figures in Cmnd 9143, after allowing for the abolition of the National Insurance Surcharge from April 1985. Three quarters of the programme is local authority current expenditure which, after allowing for the transfer of funds to the Manpower Services Commission, is increased by nearly £300 million. There is a net reduction of £24 million in Vote Expenditure.

2. "The level of services that can be afforded within the cash plans will again depend on the ability of local authorities and others to contain their costs, including those of pay settlements. The policies outlined below are compatible with the Government's assumption of pay increases of 3 per cent in 1985-86 for those groups for which the Government is responsible.

LOCAL AUTHORITY EXPENDITURE ON EDUCATION, SCHOOL MEALS AND MILK

3. "Within total relevant planned current expenditure in England in 1985-86 of over £21,000 million, it is for local authorities to decide the balance between services, taking into account their statutory obligations and Government policies.

4. "The total allocated to education in the Government's plans is £10,259 million. This represents an increase of about 6 per cent in cash over the sum allocated to the service in 1984-85 after allowing for the abolition of the National Insurance Surcharge and the transfer of some funding to the Manpower Services Commission.

5. "In addition, as in the last two years, part of total current expenditure will be treated as an amount not allocated between services. This is in recognition of the fact that some local authorities will spend more than the Government considers to be desirable on services including education and need more time to bring spending into line with Government plans. The size of the sum in 1985-86 will be £~~660~~ 600 million.

6. "Within the planned total for expenditure on education, the level of spending by individual local education authorities will depend upon their local decisions and upon their success in containing costs. If local authorities with education responsibilities spend at their provisional 1985-86 targets, their expenditure would in aggregate increase by about 2.7 per cent compared with 1984-85 budgets at a time when school rolls are continuing to fall.

7. "The figure of £10,259 million includes £280 million for school meals and milk. A number of local education authorities have been able to make substantial reductions in net expenditure under this head. I look to authorities to review the provision that they make for school meals in order to secure savings in line with the Government's plans thereby releasing resources to support policies more directed to the educational benefit of pupils and students.

Schools

8. "Overall, school rolls will continue to fall and the plans assume that authorities will secure a further reduction in the number of school teachers they employ. Provided the cost of employing staff can be contained, there should be scope for a continuing modest improvement in pupil-teacher ratios, compared with January 1984. This would give authorities the opportunity to make some progress with the implementation of policies for schools outlined in my speech at Sheffield earlier this year.

9. "The situation will vary between authorities, depending on factors such as their expenditure targets and their ability to redeploy teachers quickly in response to falling rolls. I look forward to discussions with the local education authorities about the paper 'Schoolteacher Numbers and Deployment in the Longer Term', which the Department made available last September.

10. "Authorities are continuing to make significant savings through taking surplus places out of use and remain on course to take over one million places out of use by March 1987. I have agreed with the local authority associations that new targets should be adopted for taking further surplus places out of use by 1987 and for future years and I shall be discussing with them what these should be.

11. "The latest firm information on expenditure on books shows a significant increase in the level of provision per pupil between 1981-82 and 1982-83. If costs can be contained and savings made elsewhere - for example, in caretaking and cleaning costs - there should be scope for some further improvement in expenditure per pupil compared to 1982-83 levels in many authorities both in the provision of books and equipment and expenditure on repairs and maintenance.

Non-advanced Further Education

12. "The overall level of resources proposed should enable authorities to respond to the growing and varied demand for NAFE. There are inevitable uncertainities about student numbers. The plans assume some limited increase in the participation rate of 16 and 17 year olds in future years.

13. "The student: staff ratio slackened by about 2 per cent between 1982-83 and 1983-84. The expenditure plans as they relate to NAFE imply some limited tightening of the SSR between 1983-84 and 1985-86. It should be possible in aggregate for the 1982-83 level of provision per student on books and equipment to be maintained in the great majority of local authorities if other non-teaching costs can be restrained.

14. "The plans for net expenditure on NAFE assume the transfer of £61.75 million to the Manpower Services Commission following the White Paper 'Training for Jobs' (Cmnd 9135) to enable it to purchase a more significant proportion of work-related non-advanced further education.

In-service Training

15. "Both the Government and the local authorities attach importance to in-service training as a means of further developing the skills of teachers in schools and in further education in response to changing demands and priorities. I have agreed with leaders of the local authority associations that the scheme of in-service training grants first introduced last year should be further enlarged in 1985-86.

16. "Grant of £17.5 million will be available in the 1985-86 financial year, and three new priority areas will be included in the scope of the scheme. These will apply to a special programme to support the introduction of the General Certificate of Secondary Education; the teaching of craft, design and technology in schools; staff development associated with Professional, Industrial and Commercial Updating (PICKUP) programmes in further education, and the updating of staff on work-related courses.

Educational Support Grants (ESGs)

17. "The Education (Grants and Awards) Act 1984 comes into operation for the first time in 1985-86. The Government intends to support some £30 million of expenditure on activities in support of national priorities through £21 million of grant. The choice of activities to be supported follows detailed consultation with the local authority associations and the breadth of support is reflected in the fact that all but one authority have bid for support in 1985-86 and that each of the eleven activities for which bids were invited was oversubscribed. Decisions on the allocations to authorities of expenditure to be supported under the Act will be announced next month.

CAPITAL EXPENDITURE

18. "Provision for local authority capital expenditure on education will be £272 million. This represents a reduction on plans of £18 million. The reduced provision should permit continuing progress with the removal of surplus school places and with selective re-equipment, in further education. The Department will be writing as soon as possible to local education authorities to inform them of the allocations within the education block.

HIGHER EDUCATION

19. "The cash available for each sector is set out below. The figures allow for a tuition fee of £520 for home full-time and sandwich course students on courses designated for mandatory student awards. The UGC and NAB plans for student admissions in 1985-86, together with admissions to direct grant institutions, are likely to satisfy the revised lower level of demand for higher education, as indicated by the projection in the 'Report on Education No. 100'.

Student Awards

20. "There will be a net reduction in the previously planned level of spending on student awards in 1985 and the parental contribution scale will be adjusted upwards in line with earnings in the past year; this means that some 10,000 families who would otherwise have been drawn into contributing will be relieved of the need to do so.

21. "However, minimum maintenance awards will no longer be made to those whose parents would otherwise be liable to meet the full cost of maintenance, and contributions from those in the middle and upper reaches of the income scale will be increased. In addition, the income scale will be extended, for those most able to pay, to include a contribution up to the maximum of the designated tuition fee. Details of the new

rates of award and revised contribution scales will be announced later.

Universities

22. "Subject to Parliamentary approval, the total of recurrent grant for universities in the UGC list for the 1985-86 academic year will be £1,309 million. This total has been set at a level consistent with previously planned economies and with the Government's 3 per cent assumption for pay. To the extent that the academic year falls partly in the 1986-87 financial year the grant is subject to review in the normal way.

23. "The revised grant for the 1984-85 academic year will be £1,262 million. This takes account of the revised pay assumption for the period 1 April to 31 July 1985.

24. "Equipment grant for the academic year 1985-86 will be £90.4 million, a cash increase of 3 per cent compared with 1984-85. In addition, I intend, subject to further discussion with the UGC, to make available £10 million in each of financial years 1985-86 and 1986-87 to enable them to operate a scheme for the improvement of laboratory and equipment provision in a few carefully-selected centres of research.

Advanced Further Education

25. "Following consultation with the local authority associations, I have determined under regulations made under the Local Government Planning and Land Act 1980 the quantum of advanced further education (AFE) expenditure within the predetermined pool in 1985-86 at £620 million. After allowing for the abolition of the National Insurance Surcharge, this represents an increase of over 7.5 per cent compared to the size of the quantum for the 1984-85.

26. "The revised total provides for a further overall increase in student numbers and a shift in the balance of students towards science and engineering in 1985-86. Compared to existing provision the total implies continuing reductions in unit costs and in lecturer numbers, leading to a student: staff ratio averaging 12:1 in the 1985-86 academic year.

27. "The National Advisory Body is at present considering the method of distributing the quantum for 1985-86 between authorities including the possibility that a limited sum from within the quantum might be used to support some modest new initiatives. I will decide each authority's share of the quantum later in the year in the light of the NAB's advice.

28. "Following consultations with the Voluntary Sector Consultative Council I have determined the quantum of AFE expenditure at Voluntary Colleges grant-aided solely by my Department at £41 million. I will decide its distribution between the Colleges later this year in the light of NAB's advice.

THE SCIENCE BUDGET

29. "The Science Budget for 1985-86, from which the Research Councils receive their grants in aid, will be £587 million, an increase in cash of £14 million over previous published plans for that year. Of this, I am setting aside £6 million to be used, in the light of advice from the Advisory Board for the Research Councils, to assist Research Councils to make progress with the plans for major restructuring on which they have embarked. These plans will as they are implemented release substantial resources for redeployment to areas of high scientific promise. The remaining £8 million of the £14 million increase will be distributed following advice from the ABRC. My hope is that this will enable Councils to fund more university research projects of the highest quality."

-----ooo0ooo-----

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233 3415
Telex: 262405

12 November 1984

CHANGES IN THE CURRENCY

The Chancellor of the Exchequer today announced three decisions:-

a. the Bank of England will cease to issue £1 notes after 31 December though existing notes will remain legal tender for at least a year;

b. the half penny coin will no longer be legal tender after 31 December;

c. a new Bank of England £20 note will be introduced on 15 November.

THE POUND

The condition of £1 notes in circulation is deteriorating fast. They are pushed into pockets, and many of them circulate between traders and customers without being returned to the banks for replacement as often as before. This makes it difficult for the Bank of England to maintain their quality.

The £1 coin has been welcomed in particular by the blind and is proving increasingly convenient for use in ticket and vending machines. It costs a little more to mint than the £1 note costs to print, but the coin is expected to last around 40 years, while the note has an active life of only about 10 months.

Ending the printing of £1 notes will save £3 million in the first year alone, and probably more in subsequent years.

THE HALF PENNY

The decision to withdraw the half penny follows the Chancellor's statement in February that it would cease to be legal tender by the end of the year. It cost more to produce than it is worth.

The banks will continue to accept half penny coins for a limited period in 1985. Thereafter the Royal Mint will continue to exchange them.

THE £20 NOTE

The designs of all denominations of banknotes in circulation are kept under review and renewed as necessary. The oldest design now in use is that of the £20 note. This will be replaced by a note similar in design but of different colouration. The Bank of England is taking the opportunity to incorporate a new form of thread and other security features to make it harder to forge.

PRESS NOTICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233 3415

188/84

NOTES FOR EDITORS

1. General questions on this announcement should be addressed to the Treasury Press Office. Technical questions on the pound coin should be addressed to the Royal Mint - telephone number 01 828 8724.

2. The Government undertook to allow sufficient time for the public to become accustomed to the coin. It is 18 months since its introduction.

3. The status of private bank note issues in Scotland and Northern Ireland is unaffected.

4. Withdrawing the ½p is expected to have no effect on the RPI. Its use in payments has already largely disappeared.

5. The withdrawal of the ½p is subject to the Privy Council's approval of the necessary Royal Proclamation.

6. The Bank of England will be making a more detailed announcement about the £20 note on 14 November.

Ministry of Agriculture, Fisheries and Food

MAFF

PRESS RELEASE

November 12, 1984

PUBLIC EXPENDITURE ON AGRICULTURE, FISHERIES AND FOOD IN 1985/86

In a written reply to a question by Sir Geoffrey Johnson Smith, MP, in the House of Commons today, asking about planned expenditure for agriculture fisheries and food in 1985/86, the Rt Hon Michael Jopling, MP, Minister of Agriculture, Fisheries and Food said:

"As announced in the Chancellor's statement today planned expenditure on agriculture, fisheries and food in 1985/86 will be £2249 million. This represents a net increase in support for the industries of £103 million over what was previously planned. Within this total, provision is made for additional expenditure of £189 million by the Intervention Board for Agricultural Produce, mainly to finance the expected increase in intervention for cereals, partly offset by reduced expenditure of £58 million by the three Agricultural Departments on schemes prefunded by the Community. The net increase in expenditure funded by the European Community amounts to £131 million.

"The other expenditure in 1985/86 for which my agriculture colleagues and I are responsible, shows a net reduction of £36 million - 4.2% of domestic expenditure and 1.7% of total expenditure on agriculture fisheries and food. Our main concern has been, taking account of changing circumstances and developments in the European Community to ensure that the resources available for these programmes within total planned public expenditure are deployed in ways which will best serve the changing needs of the industry. In this connection the future role of ADAS has recently been reviewed by the Director General and his report will be published tomorrow.

"We shall be reducing expenditure under the capital grants schemes by about £40 million in 1985/86. The details will be given in orders which I shall shortly lay before Parliament. The changes in the schemes are designed to pave the way for the new measures which we expect to introduce in 1985 to implement a new EC structures

WHITEHALL PLACE, LONDON SW1A 2HH.
Press Office 01·233·8226 After hours 01·233·5550

regulation. They will take account of particular needs in the livestock sector and will further advance my intention to secure a better balance in these policies between agriculture and conservation. We shall also be making a reduction of £12 million in assistance for arterial drainage and flood protection.

"We intend to provide continued support for hill farming through livestock compensatory allowances extended to the newly designated areas and I shall be announcing the 1985 rates shortly. There will also be provision for the continuation of the enhanced rate of suckler cow subsidy I announced last April and for payments to producers under the milk outgoers scheme, amounting together to some £20 million. The net outcome for domestic expenditure I refer to above takes account of these commitments and further adjustments."

NOTES FOR EDITORS

1. Changes in planned expenditure today, compared with previously published plans (Cmnd 9143) are as follows (all figures in £ million)

	Cmnd 9143 with budget and other	Cmnd 9143 with budget and other	Revised plans	Change over previous plans
	1984 - 85	1985 - 86	1985-86	1985-86
Agriculture	1001	1021	935	-86
Intervention Board for Agricultural Produce	1244	1125	1314	+189

2. The totals for agriculture embrace fisheries and food and cover expenditure by the Ministry of Agriculture, Fisheries and Food, the Department of Agriculture and Fisheries for Scotland and the Welsh Office Agriculture Department. Departmental totals will be provided in the next Public Expenditure White Paper.

3. Certain changes referred to in the Minister's reply have previously been the subject of detailed announcements. The relevant Press Notices are:

Subject	Press Notice Number and Date
Suckler Cow Premium Scheme	No 111 of April 2, 1984
Milk Outgoers Scheme	No 184 of May 25, 1984

JJ

To ask the Secretary of State for the Environment, whether he will give details of his public expenditure programmes for 1985/86.

1. My rt hon Friend the Chancellor of the Exchequer has announced the main changes to the Government's public expenditure plans for 1985/86 and later years. The table below gives details of the changes in my Department's programmes.

2. Resources for spending in the public sector next year will be very limited, and have been further stretched by the continuing over-spending by local authorities. As I announced on 24 July, we have had to increase local authority relevant current expenditure provision (adjusted for changes in the responsibilities of local authorities) by some £800m. I have consulted local government on the various elements of the 1985/86 Rate Support Grant settlement and will lay proposals before Parliament in December.

3. There was a substantial overspend on Local Authority Net Capital provision in 1983/84, and there is again likely to be an overspend in 1984/85. The figures in the table take account of both.

4. For housing we have made a small reduction of £65m on the gross capital provision. Expenditure will be supported by a level of capital receipts £430m higher than we assumed last year for 1985/86; this higher estimate has been made possible by the success and extension of our Right to Buy policies.

5. I shall be announcing later, in the usual way, the apportionment of this total between the local authorities and the Housing Corporation; and individual local authorities will be receiving their detailed Housing Investment Programme allocations. I am considering whether any change should be made in the prescribed proportion of capital receipts which authorities may use to augment their allocations, bearing in mind that local

authorities were told in Cmnd 9143 that they could plan their programmes on the assumption that their allocations for 1985/86 would be not less than 80% of those in 1984/85.

6. Expenditure at these levels means that it is more important than ever to determine clear priorities for spending on housing and to seek the most cost effective solutions. It will be necessary for local authorities to concentrate more resources on the repair and renovation of their houses and flats and to make a start on dealing with the emerging problem of structural defects. Where authorities have blocks of flats or housing estates which need substantial renovation for which they do not have the resources in the near future, I will expect them to make strenuous efforts to find private sector partners who can take this on.

7. For private sector property, it was never the Government's intention that expenditure on Home Improvement Grants should continue indefinitely at the levels of the last 2 or 3 years. It is primarily the responsibility of owners to keep their own dwellings in repair and where necessary to finance improvements by borrowing on the security of their properties. Accordingly, I would like to see Home Improvement Grants focussed increasingly on those who can least afford to pay for repairs and improvements. I will shortly be issuing a consultation paper on proposals for legislation to secure this objective and I hope that so far as practicable local authorities will be guided by the general sense of these proposals in budgeting for improvement and repairs grants in the next financial year.

8. The Urban Programme will be continued with total provision (including other Departments' contributions) of over £300m a year for 1985-86 and the following two years. Within this total, provision for Partnership and Programme authorities will be continued at about the present cash level next year. The traditional Urban Programme will be concentrated in fewer areas, but existing revenue grants will be continued for their present term of up to five years. Provision for Urban Development

Grant will continue at a level that will enable schemes already approved to proceed and new schemes to be brought forward. In the two later years resources will increasingly be concentrated ed on the areas of greatest need.

9. Provision for local authority Local Environmental Services Capital is unchanged from the White Paper. The reduction of £45m is the net PES provision for New Town expenditure reflects a corresponding increase in the forecast receipts from disposal of commercial and industrial assets. Gross New Town expenditure will be maintained at the previously planned level.

10. I have made some additional resources available to the Nature Conservancy Council and the Countryside Commission to reflect costs involved in their ~~statutory~~ obligations under the Wildlife and Countryside Act, and a small addition to maintain the Heritage provision ~~at this year's cash level~~.

11. The external finance limit for water authorities in England and Wales for 1985/86 will be £203 million, including £14 million for land drainage grants administered by MAFF and £20 million allocated to the Welsh Water Authority. For the English water authorities, the Government intends that there should be a significant increase in the provision for water investment from this year's provision of £686 million, to £769 million in 1985/86. This will allow us to make faster progress on replacement repair and maintenance of sewers and water mains, and on improving the quality of rivers, estuaries and coastal waters. To finance this investment consistently with the reduced external finance limit, the Government has decided to set the financial targets for the water authorities to achieve an average rate of return of 1.4% in 1985/86 compared with this year's average rate of return of about 1.0%. This is the first step in a policy to raise the average rate of return over three years to 1.7%, and then to 1.9%.

As a result water charges will increase by rather more than the general rate of inflation. Discussions will now take place with individual authorities to give effect to these policies.

An extra £15m has been allocated to the Property Services Agency in 1985/86 for major new works and maintenance of the civil estate.

	1984-85	1985-86	£million Cash
	Cmnd 9143 Provision	Notional allocation of provision in Cmnd 9143	Revised provision
Total Local Authority Relevant Current Expenditure (covering all Departments' Services)	20389	20829 (1)	21315
HOUSING (Local Authorities, Housing Corporation, New Towns)			
Capital: Gross Expenditure	3244	3121	3056
Receipts	-1600	-1300	-1730
Net Capital Expenditure	1644	1821	1326
Current Expenditure (2)	847	779	979
Programme total: Net capital plus current	2491	2600	2305
DOE OTHER ENVIRONMENTAL SERVICES			
Local Environmental Services Current Expenditure (3)	2260	2338	2372
Local Environmental Services Capital Expenditure: Gross Expenditure	549	547	547
Receipts	- 360	- 360	-360
Net Expenditure	189	187	187
New Towns (Industrial and Commercial, Sewerage)	3	3	- 42
Urban and Derelict Land Block (including Urban Current)	404	427	405
Royal Parks, Ancient Monuments, Heritage etc	92	92	94
Central and Miscellaneous Services, Environmental Research	117	121	126
Environmental Bodies, Development Commission	89	92	100
English Water Authorities Exeternal Finance Limit	264	243	183
Water Research, Other Water Services	10	10	9
British Waterways Board External Finance Limit	43	44	44
PSA: Office and General Accommodation (4)	- 86	- 100	- 85

Notes: See Over

NOTES TO TABLE

(1) £20493m after adjustment for abolition of NIS and classification changes in respect of London Regional Transport and Non Advanced Further Education.

(2) Subsidies, rate fund contributions, and local and central government housing administration.

(3) Including costs of rate collection and of the births marriages and deaths registration service

(4) Negative provision reflects the fact that Departments' repayments to PSA for office accommodation at market renetal values exceeds PSA's actual costs of provision because of its holdings of property on Crown leasehold and at low historic rents.

Department of Health
and Social Security

PRESS RELEASE

Alexander Fleming House
Elephant and Castle
London SE1 6BY

Telephone 01-407 5522

84/355 12 November 1984

NATIONAL INSURANCE CONTRIBUTIONS FROM 6 APRIL 1985 - NO INCREASE IN RATES FOR EMPLOYEES OR EMPLOYERS

National Insurance contribution changes from 6 April 1985 were announced today by Norman Fowler, Secretary of State for Social Services.

Four main elements in the announcement:

* There will be no change in the rates for Class 1 contributions, which employed people and their employers pay, or for the Class 4 contributions which are paid by some self-employed people.

* The lower and upper earnings limits for Class 1 contribution liability are being raised to £35.50 and £265 a week respectively. The earnings limits are increased each year in line with the requirement in law to relate them to the basic pension rate.

* The Treasury Supplement to the National Insurance Fund is being reduced by 2 per cent from 11 per cent to 9 per cent. This will help to restore the balance of spending on social security between contributions and general taxation. In recent years an increasing share of spending has come from general taxation.

* The balance in the Fund for 1985/86 will still be well above the level of 16.6 per cent of annual benefit expenditure which the Government Actuary has suggested as a minimum.

Commenting on the changes, Mr Fowler said:

"I am very glad that next April, for the second year in succession, there is to be no increase in National Insurance contribution rates for employers and employees. The earnings limits, of course, will go up next April since it is normal practice to increase them each year in line with the requirement in law to relate them to the basic pension rate."

In reply to a question from Tim Wood MP for Stevenage, Mr Fowler said:

"I have completed the annual review under section 120 of the Social Security Act 1975 and I have today laid two draft Orders which require the approval of both Houses: the Social Security (Contributions, Re-rating) (No 2) Order 1984 providing for contribution rates and profits limits to take effect from 6 April 1985, and the Social Security (Treasury Supplement to Contributions) (No 2) Order, which provides for a reduction in the Treasury Supplement from 11 per cent to 9 per cent. I have also laid the Social Security (Contributions) Amendment (No 2) Regulations 1984, which set out new earnings limits for employees' and employers' contributions. A report by the Government Actuary (Cmnd 9386) which accompanies the Orders and Regulations explains their effect on the National Insurance Fund.

EMPLOYEES AND EMPLOYERS

"As my Right Hon Friend the Chancellor of the Exchequer said in his statement earlier today I do not propose to raise the rate of contribution for either employees or employers. In line with the requirements of the Social Security Pensions Act 1975, the lower earnings limit for Class 1 contributions is to be increased to £35.50 a week, just below the new basic retirement pension rate, and the upper earnings limit is to be raised to £265 a week, which is about 7.4 times the new basic pension rate. These new earnings limits replace the existing ones of £34 and £250 a week respectively. The effects of these changes are as follows:

NOT CONTRACTED-OUT EMPLOYEES

"Neither the employee nor his employer will have to pay a contribution if his earnings are less than £35.50 a week. For people earning between £35.50 and £250 (the old upper limit) there will be no increase for either the employee or the employer. For those with earnings above £250 a week the maximum increase will be £1.35 a week for the employee and £1.57 for the employer.

CONTRACTED-OUT EMPLOYEES

"Contributions payable by contracted-out employees and their employers will rise slightly. Where earnings are less than £250 the increase will be very small, reflecting the fact that the increase in the lower earnings limit reduces the band of earnings on which the lower contracted-out rate is paid; the increase on earnings between £35.50 and £250 will generally be 3p for the employee and 6p for the employer. Additional contributions will be payable on earnings between £250 and £265 (the new upper limit); the maximum increase will be £1.05 for the employee and £1.01 for the employer.

THE SELF-EMPLOYED

"The flat-rate Class 2 contribution will be raised to £4.75. Strict application of the formula for calculating self-employed contributions which has operated since 1977 would have meant a Class 2 rate of £5.05 but I have thought it right to continue - and indeed increase - the modest relief to the small businessman while remaining within the broad framework of the formula. The rate of the Class 4 contribution is not being increased and the annual limits of profits between which Class 4 contributions are paid are being raised from £3,950 and £13,000 to £4,150 and £13,780 respectively.

"The effect of these changes is that for self-employed people who only pay Class 2 contributions there will be an annual increase of £7.80, but for those with profits between £4,150 and £13,000 there will be a reduction of £4.80 a year, assuming the same level of profits as in 1984/85. For those with profits of or above £13,780, the new upper profits limit, the increase will be £44.34 a year.

CLASS 3 (VOLUNTARY) CONTRIBUTIONS

"The rate of Class 3 contributions is to be raised from £4/50 to £4.65.

RATE OF TREASURY SUPPLEMENT

"The Treasury supplement to the National Insurance Fund is being reduced from 11 per cent to 9 per cent. In recent years the Consolidated Fund has been meeting an increasing share of social security expenditure."

NOTES FOR EDITORS

Table A attached sets out the changes proposed for 1985/86 and Table B shows their effect on individual liability on a range of earnings or profits between £34.00 a week (the old lower earnings limit) and £265 a week (the new upper earnings limit). Detailed figures for National Insurance Contributions are included in the Government Actuary's report on the draft of the Social Security (Contributions Re-rating No 2) Order 1984. The Class 1 and Class 4 percentage contribution rates are not being changed but the class 2 rate and the lower and upper earnings and profits limits, which are expressed in cash terms, have been increased broadly in line with inflation.

As the Class 1 rate is not changing, most employees will be unaffected, although their contributions rise automatically if their earnings rise. Employees with earnings between £34.00 and £35.50 will now be exempt from contributions. Those with earnings above £250 will now pay contributions on the next £15 of earnings up to the new earnings limit of £265. In addition, there will be an increase generally of 3p a week in the contributions of people who pay at the contracted-out rate on earnings between the earnings limits.

The same considerations apply to the employer's share of the Class 1 contribution. In most cases the increase will be nil or, for contracted-out employers, generally 6p a week.

A similar pattern applies to self-employed people. Only those with profits above the present upper profits limit will be significantly affected by the new limits. Most self-employed people who have profits between the lower and upper limits will pay less than people earning the same amount in 1984/85 since the slight increase in Class 2 liability is more than offset by a reduction in Class 4 liability.

TABLE A

CHANGES IN CONTRIBUTION RATES PROPOSED FOR 1985/86

	1984/85	Increase	1985/86
<u>Class 1 rates</u>			
Employed earner's rate			
Not contracted-out	9.0%	-	9.0%
Contracted-out	9.0% to LEL	-	9.0% to LEL
	6.85% between LEL and UEL	-	6.85% between LEL and UEL
Reduced rate	3.85%	-	3.85%
Employer's rate			
Not contracted-out	10.45%	-	10.45%
Contracted-out	10.45% to LEL	-	10.45% to LEL
	6.35% between LEL and UEL		6.35% between LEL and UEL
<u>Class 1 limits</u>			
Lower earnings limit (LEL)	£34.00 a week	£ 1.50	£35.50 a week
Upper earnings limit (UEL)	£250.00 a week	£15.00	£265.00 a week
<u>Class 2 rate</u>	£4.60 a week	£ 0.15	£4.75 a week
<u>Small earnings exception</u>			
Limit of net earnings for exception from Class 2 liability	£1850 a year	£75	£1925 a year
<u>Class 3 rate</u>	£4.50	£ 0.15	£4.65
<u>Class 4 rate</u>	6.3%	-	6.3%
<u>Class 4 limits</u>			
Lower limit of profits or gains	£ 3950 a year	£200	£ 4150 a year
Upper limit of profits or gains	£13000 a year	£780	£13780 a year

EFFECT OF PROPOSED CHANGES ON INDIVIDUAL LIABILITY

EMPLOYED EARNERS

WEEKLY EARNINGS	EMPLOYEE		EMPLOYER		TOTAL	
	AMOUNT £	CHANGE £	AMOUNT £	CHANGE £	AMOUNT £	CHANGE £
NOT CONTRACTED-OUT						
£ 34.00	Nil	- 3.06	Nil	- 3.55	Nil	- 6.61
£ 35.50)	3.19	Nil	3.71	Nil	6.90	Nil
£100.00)	9.00	Nil	10.45	Nil	19.45	Nil
£180.00)	16.20	Nil	18.81	Nil	35.01	Nil
£250.00)	22.50	Nil	26.12	Nil	48.62	Nil
£265.00 or more	23.85	+ 1.35	27.69	+ 1.57	51.54	+ 2.92
CONTRACTED-OUT						
£ 34.00	Nil	- 3.06	Nil	- 3.55	Nil	- 6.61
£ 35.50	3.19	+ 0.03	3.71	+ 0.06	6.90	+ 0.09
£100.00	7.61	+ 0.03	7.81	+ 0.06	15.42	+ 0.09
£180.00	13.09	+ 0.03	12.89	+ 0.07	25.98	+ 0.10
£250.00	17.88	+ 0.02	17.33	+ 0.06	35.21	+ 0.08
£265.00 or more	18.91	+ 1.05	18.28	+ 1.01	37.19	+ 2.06
REDUCED RATE*						
£ 34.00	Nil	- 1.31	)			
£ 35.50	1.37	Nil	)			
£100.00	3.85	Nil	) as above			
£180.00	6.93	Nil	)			
£250.00	9.62	Nil	)			
£265.00 or more	10.20	+ 0.58	)			

SELF-EMPLOYED

Annual Profits or Gains	Yearly Contribution £	Change £
£1850 - £ 1924	Nil	- 239.20
£1925 - £ 3950	247.00	+ 7.80
£ 4150	247.00	- 4.80
£ 9360	575.23	- 4.80
£13000	804.55	- 4.80
£13780 or more	859.69	+ 44.34

* Payable by opted-out married women and widows (3.85%)

Department of Health
and Social Security

PRESS RELEASE

Alexander Fleming House
Elephant and Castle
London SE1 6BY

Telephone 01-407 5522

84/356 12 November 1984

CHANCELLOR'S STATEMENT: SOCIAL SECURITY

Norman Fowler, the Secretary of State for Social Services, today gave details of the social security changes announced in the Chancellor's Autumn Statement.

"The cost of the Social Security programme is continuing to rise. In 1985-86 spending will come very close to £40 billion, which is an increase of almost £½ billion over the total in the Public Expenditure White Paper. The Government is continuing to fulfil its commitments to protect social security benefits against inflation.

"Benefits are being increased this November, as announced, in line with the increase in prices during the year to May 1984. This applies not only to pensions and linked long-term benefits, in keeping with the Government's pledge, but to the unpledged benefits as well, including unemployment benefit and child benefit. The retirement pension will go up by £1.75 a week for a single person (from £34.05 to £35.80) and by £2.80 for a couple (from £54.50 to £57.30). Altogether these increases will cost £1.6 billion in a full year.

"The programme also makes full provision for a benefit uprating in November 1985 based on price rises in the twelve months up to May of that year. The actual amount of the uprating will be announced in June in the normal way when the May RPI is known.

"In spite of the extra costs on social security, the percentage contribution rates for national insurance for employers and employees are being held at their current level. The earnings limits will be adjusted in the normal way; and there will be a reduction in the level of the Treasury Supplement to the National Insurance Fund from 11% to 9%."

The Secretary of State also announced that he would be making a number of policy changes on social security to help contain public expenditure. The main changes to be introduced next year will affect supplementary benefit claimants in board and lodging and residential care, and the rules on invalidity benefit. From April 1986, he proposes to extend the duration of statutory sick pay from eight weeks to 28 weeks. The Secretary of State commented on the details of these changes as follows:

I. Board and Lodging

1. I intend to take urgent action to curb the recent rapid increases in supplementary benefit expenditure on people receiving board and lodging payments. In the year to December 1983 the annual rate of expenditure on board and lodging rose from £205 million to about £380 million. My latest information suggests that this figure has grown by a further 50 per cent during 1984. No responsible Government could allow expenditure to increase in this way unchecked, and I shall bring forward shortly a series of measures aimed at bringing it under control.

2. The main elements will include a new system for setting maximum amounts of benefit. In the ordinary board and lodging sector, we shall introduce new regional limits on amounts that can be paid to individuals. This will rule out some of the highest of the current payments while still covering a broad range of accommodation. This will make clear to proprietors the limits to which public funds will be provided for this type of accommodation. I shall also be taking steps to restrict the circumstances in which younger people without dependants can rely on supplementary benefit support in order to leave home and establish themselves in long-term board and lodging arrangements.

3. For the residential care and nursing home sectors, we plan to have a new scale of limits for different types of establishment. This will enable the amounts paid to reflect more closely the real differences in costs between, for example, a residential care home for the elderly and a home for the young physically handicapped.

4. The proposals will make generous provision for transitional protection for existing beneficiaries.

II. <u>Invalidity Benefit</u>

5. I also propose to make a number of invalidity benefit changes. First, from November 1985 we shall restore the 5% abatement of invalidity pension. Those pensions (along with unemployment and sickness benefit and maternity allowance) were raised by 5% less than other benefits in 1980 because they were tax-free. The abatement of unemployment benefit was restored after the benefit came within tax. We now have the resources also to restore the abatement of invalidity pension so that it will once again equal the retirement and widows' pension rate. The rate of invalidity pension will rise by £1.55 a week for single pensioners and £2.50 for couples in addition to the normal uprating.

6. Secondly, I propose to end the duplication of the invalidity allowance and the earnings-related additional component which are currently both payable with invalidity and retirement pension. Invalidity allowance is set at one of three rates depending on the age at which incapacity begins - the earlier the incapacity, the higher the rate. It was designed to compensate people who are disabled early in life and so have not been able to build up savings for their retirement. However, since 1979 invalidity pension has included an earnings-related component, calculated in the same way as the component payable with retirement pension and offering an equivalent to the early payment of an occupational pension.

7. The two elements, which were introduced at different times, clearly serve broadly the same purpose. I therefore propose to introduce legislation to provide for them to be offset against one another, so that in effect only the higher of the two is payable. The offset will also apply where a guaranteed minimum pension is in payment after pension age to someone contracted out of the State pension scheme. Subject to Parliamentary approval, the change will be introduced next year, but existing beneficiaries will be protected to ensure that their benefit is not actually reduced.

8. Thirdly, I propose to end the discrimination which applies at present between the rules for paying dependency addition for a husband or for a wife. A husband getting invalidity or retirement pension can receive a dependency addition for his wife as long as her earnings do not exceed £45 per week, while above that the addition is reduced on a taper. But a wife cannot treat her husband as her dependant if his earnings exceed by any amount at all the level of the dependency addition (£20.55 from this month's uprating). I propose to move to a common earnings rule which will provide a more realistic test of dependency as well as being non-discriminatory: details are still under consideration.

9. Finally, I propose to introduce new arrangements for paying incapacity benefits and maternity allowance fortnightly in arrears, instead of one week in arrears which is generally the arrangement at present. This is in line with our plans for unemployment benefit, and is a further step in our policy of streamlining the system by developing common rules and arrangements for paying benefits - which is particularly important for our operational strategy. The new rule, which will apply only to new beneficiaries, will operate from next year.

III. Statutory Sick Pay

10. The Statutory Sick Pay Scheme which we introduced in April 1983 has been a major success. I think it is fair to say that employers are now well accustomed to it as a routine part of

their pay arrangements and that their initial forebodings about it have not been borne out. The indications are that employees also generally welcome the scheme since it means they receive payments for short-term sickness from one source instead of two. The other advantages we claimed for the scheme have also been realised: a reduction of the duplication of State and private provision; and a substantial saving of staff in my Department and in public expenditure.

11. In view of these advantages, I have decided that it would be right to extend the duration of SSP to 28 weeks and I shall shortly be introducing legislation to achieve that. The extension will not take place until April 1986 which will give us time to consult fully on the detailed changes involved. The legislation is being drafted specifically to allow for this.

12. Prior to this change, I propose to relieve employers of the cost of the contributions they make on payments under the SSP scheme. This will result in a saving to them of up to £40 million a year on their current payments for spells of sickness up to eight weeks, and will mean that they will not bear the cost of contributions on the payments which they will make from the eighth week onwards.

IV. A change in directors' contribution liability

13. I also intend to repeal the special power in section 152(4) of the Social Security Act, under which directors can become personally liable for the National Insurance contribution debts of their company if they knew or should have known that the contributions were not being paid. This power is not conferred on other revenue-collecting Departments. It has also been criticised on the grounds that its use can result in exceptionally harsh personal financial penalties in certain circumstances; and that it may be a disincentive to directors to strive to save their companies, or may discourage the appointment of new directors where this might be in the interests of a company in difficulties.

14. I have decided that the use of section 152(4) is no longer justified and I intend to repeal it as soon as a suitable opportunity arises. This will bring my Department's powers into line with those of other revenue-collecting Departments, and it is my intention to keep in step with them in future. From the date of this announcement, I propose to take no further action in any case in which my Department is currently involved.

V. <u>Housing Benefit</u>

15. The Government will not be making any changes of substance pending the outcome of the independent Housing Benefit review. Action will, however, be taken to close a loophole which has unintentionally allowed housing benefit to be paid to a person who claims to be paying board and lodging charges to a relative on a non-commercial basis.

16. The child's need allowance will be increased from £11.90 to £12.85 from 26 November as part of the annual benefits uprating, an increase of 50p more than is required to maintain the allowance's value. But the Government will not be proceeding for the time being with the further increase in the allowance which it was proposed to make in April 1985.

Department of Health and Social Security

PRESS RELEASE

Alexander Fleming House
Elephant and Castle
London SE1 6BY

Telephone 01-407 5522

84/354 12 November 1984

EXTRA £700 MILLION FOR THE NHS: NORMAN FOWLER

Norman Fowler, Secretary of State for Social Services, today announced planned spending for the NHS for 1985-86. Mr Fowler said: "We plan to spend £17 billion, which represents an extra £700 million on the NHS in Great Britain next year. That is £200 million more than the plan published earlier this year. This extra spending shows the Government's continued commitment to the NHS, and provides the additional resources which will be needed for the Health Authorities and the Family Practitioner Services.

Hospital and Community Health Services

"The position in England is this. Next year we plan to spend a total of £9.58 billion on the hospital and community health services. This represents a cash increase of some 5½ per cent over spending in 1984-85 - that is 1 per cent more than the forecast rate of inflation and £80 million more than the White Paper plan. Health authorities will also have available to them resources released by the growing programme of cost improvements, already running at over 1 per cent a year. They will be expected to meet from their resources all pay and price increases throughout the year, and to develop and improve services.

"In the current year health authorities have identified cost improvement programmes totalling £100 million to be released for patient care. These programmes show the potential for using existing resources more effectively to provide more and better services. Next year we expect authorities to build on what they have achieved this year and to take it further.

Family Practitioner Services

"I am anxious to make sure that we get better value for money from expenditure on the Family Practitioner Services. That is why I announced action last week to reduce expenditure on drugs through tighter controls of drug company profits and limitations on the use of some of the less important drugs. But we will meet the costs of the Family Practitioner Services and now expect to spend £100 million more than planned in the last White Paper. This will be an increase of 2.5 per cent over the current year. Patient charges to operate from April 1985 will be settled and announced later.

Commitment to the Health Service

"Today's announcement shows that the Government is maintaining its commitment to increase spending on the health service. But we are not just providing extra cash; we are also determined to achieve better value for money so that the health service can go on providing more and better services to patients."

Department of Transport 2 Marsham Street, London SW1P 3EB. Telephone 212 3434

Press Notice No: 513

12 November 1984

TRANSPORT IMPLICATIONS OF PUBLIC EXPENDITURE DECISIONS

Commenting on the public expenditure policy decisions announced by the Chancellor of the Exchequer today, Nicholas Ridley, Secretary of State for Transport said:

"Despite the pressures on public expenditure in 1985/86, the Government has recognised the high priority of transport in modern life and has maintained the provision virtually unchanged from the last Public Expenditure White Paper. Expenditure on national roads will be higher than in the current year and will have increased by about 17 per cent since 1983-84. The provision for local authority current expenditure is maintained at the planned 1984-85 level in real terms; but as local authorities have budgeted to spend significantly more in 1984-85, they will need to make reductions in 1985-86 to bring their spending into line with the provision. Savings will result from the reclassification of trust ports as private sector enterprises. For the nationalised transport industries, the external financing limits allow scope for substantial increased investment by British Rail and by London Regional Transport."

The figures for the main programmes for 1985-86 are shown below, in comparison with the forecast outturn for the current year:

	£ Million	
	1984-85 Forecast Outturn	**1985-86 Planned**
Programmes within the Department's direct control		
National roads	806	834
Central government support to transport industries (other than included in nationalised industries external financing) and ports	194	122
Regulatory and other services	246	249
Programmes dependant upon local authorities or nationalised **industries**		
Local transport		
Capital	854 (c)	671(a)
Current	1943(b)	1544(a)(b)
External financing limits of nationalised industries		
British Rail	1000	918
London Regional Transport	-	323
Other	90	54

Notes (a) After allowing for provision transferred to London Regional Transport in 1985-86.

(b) Includes local authority support to nationalised industries, included in their EFL's.

(c) Provision Cmnd 9143.

The main points of interest on the revisions to the Department of Transport programmes are:

National Road System

The significant increase in capital expenditure in 1984-85 will be maintained, with a cash provision in 1985-86 some 17 per cent higher than the level of expenditure in 1983-84.

The excellent results achieved in 1983-84 have continued into this year. Favourable weather conditions in the Spring and Summer have enabled many schemes to proceed faster than originally planned. Of the 53 major projects currently under construction 42% are ahead of schedule. In the current year 33 miles of new motorway and trunk road have already been opened, and at 1 November 20 now contracts had been let for schemes in the national road programme.

Ports

The reclassification of the trust ports as private sector enterprises will result in savings in public expenditure.

Local Transport Capital Expenditure

There are as yet no reliable outturn figures for local transport capital spending in 1984-85, but the Government expect local authorities to heed requests to curb their capital spending generally so that it is in line with provision as shown. After allowing for the transfer of LRT, the provision for 1985-86 will be similar to this year's reflecting the continuing need to contain public spending and to compensate for the general overspend against the local authority capital cash limit in 1983-84.

Local Transport Current Expenditure

After taking account of the establishment of London Regional Transport, provision for local authority current expenditure in 1985-86 is maintained at 1984-85 level after allowing for inflation. Local authorities have however budgeted to spend significantly more on transport current expenditure in 1984-85 than provided in the Government's plans. The overspend is particularly serious on revenue support to public transport in the metropolitan areas and on professional and technical services. The Government is therefore seeking significant reductions in the level of local authority transport spending over the planning period to bring expenditure more closely into line with provision.

External Financing Limits for Nationalised Industries

British Rail's external finance limit (EFL) includes central government support for the passenger business (the PSO grant). The 1985-86 EFL reflects the recovery the Board expect to make from the adverse effects of the miners strike, and further planned improvements in their financial position. It provides scope for investment to be increased substantially above current levels, including the first tranche of investment in electrification of the East Coast Main Line. The cash limit on the PSO grant for 1985-86 has not yet been settled, but it will be at a level which reflects continuing progress towards achievement of the PSO grant target (£635m at 1983 prices in 1986).

London Regional Transport (LRT) is a new nationalised industry created in June 1984 when control of London Transport passed from the Greater London Council to the Government. The EFL reflects progress towards the £95m revenue support target for 1987-88 set by the Secretary of State in July and LRT's need for a major programme of investment in cost-saving equipment and renewal of the system.

Press Enquiries: 01-212 0431

Public Enquiries: 01-212 3434
ask for Public Enquiry Unit

Department of Employment **PRESS NOTICE**

Caxton House Tothill Street London SW1H 9NF
Telephones: Direct lines — Press Office 01-213 7439 (24 hour answering service) Public Enquiries 01-213 5551
Exchange — 01-213 3000 Telex 915564 DEPEMP

November 12, 1984

£5m TRAINING LOANS SCHEME - CONSULTATION PAPER ISSUED

Mr Tom King, Secretary of State for Employment, has today issued a consultation paper inviting views on an experimental scheme of training loans designed to open up more opportunities for people over 21 years of age to train and retrain for employment.

Mr King said "Under this imaginative scheme which will give individuals more chance to invest in their own training the Government has set aside £5m in 1985/6 to enable some 10,000 loans of varying amounts to be made.

"We want to explore all the possible options for helping people to get the training they want and need. This scheme could help those who fall outside the training provision or cannot afford to meet the whole cost of training."

There is increasing evidence from other countries which are our major competitors, such as the United States, Germany and Japan, that individuals expect and are expected to contribute to the investment in their own training.

The consultation paper outlines a proposal for a pilot scheme of shared loans, which would be additional to existing training arrangements. The Government would share the cost of the loan with an existing lending institution such as a bank, with the trainee also making a contribution.

The pilot scheme would be open to anyone over the age of 21, who is resident in Great Britain, wishing to take any course of vocational training lasting one year or less full-time (part-time courses could be longer). Those seeking a loan would apply to one of the lending institutions participating in the scheme. It would be for the banks to decide whether to grant a loan and they would handle all the administration.

Successful applicants would be required to provide a certain proportion, say 20 per cent of the required finance from their own resources. The bank would negotiate with them a loan for the remainder providing say, half from its own resources, the other half being provided by the Government. The whole loan would attract the appropriate commercial rate of interest. Payment of interest and repayments of capital would be made to the bank according to a timetable negotiated between them and the borrower. The bank would in turn, repay to the Government its share of the loan and interest.

The types of courses likely to attract applications for a training loan might include HGV Driving, and courses for individuals to update their skills, office technology training and various small business courses.

Comments on the proposal should be sent to the Department of Employment (Room 334) by January 31, 1985. Copies of the consultation paper on "Training Loans" can be obtained from 01-213 4474.

NOTES TO EDITORS

Mr King announced the consultation document in a written parliamentary answer this afternoon. The Government announced its intention to examine the possibility of a training loans scheme for adults in the White Paper "Training for Jobs" published in January (Cmnd 9135 para 42).

Department of Employment PRESS NOTICE

Caxton House Tothill Street London SW1H 9NF
Telephones: Direct lines – Press Office 01-213 7439 (24 hour answering service) Public Enquiries 01-213 5551
Exchange – 01-213 3000 Telex 915564 DEPEMP

November 12, 1984

MORE HELP FOR UNEMPLOYED

Tom King, Secretary of State for Employment, today announced plans for developing employment and training measures for 1984-86. The Government's proposals include a big boost for the Enterprise Allowance Scheme, plans for a new system of Training Loans and more money to extend the Technical and Vocational Education Initiative (TVEI).

Mr King said this afternoon, "Nearly 700,000 (¾ million) people are now being helped and expenditure has risen more than four fold since 1979 to well over £2 billion in the current financial year. This is a significant achievement and we are now able to make a number of important additions and improvements to the existing measures to help provide more opportunities and more training for unemployed people.

The key points in Mr King's package are:

A 25 per cent increase in the Enterprise Allowance Scheme - the increasingly successful programme which provides a £40 a week grant to help unemployed people set up in business for themselves. There is to be an extra £72 million to make it possible for up to 1250 people a week to join the scheme. This will increase the Scheme so that in 1985 62,500 unemployed people will have the chance to start up on their own.

A new £5 million pilot scheme for Training Loans is proposed to help people who may fall outside present training provisions or who cannot at the moment afford to get special training for themselves [A separate press notice is attached with details of the proposed scheme].

More Government money is to go into the Technical and Vocational Education Initiative (TVEI) which offers a completely new approach to vocational education for 14 to 18 year olds. The Scheme was launched on a pilot basis with 14 Education Authorities and has since been expanded to cover a further 48. More funds will now be made available to allow the remaining local education authorities in the country to put up a new scheme.

The other existing employment and training schemes are to be maintained and improved. The Youth Training Scheme (YTS) is to be extended to certain groups of 18 year olds who would otherwise miss the chance of taking part. The Adult training programmes are to be reshaped in order to double to 250,000 over the next two years the number of men and women able to benefit under the various schemes. In particular the Community Programme which offers 130,000 places to the long-term unemployed will - for the first time - give 50,000 of them the chance to undertake linked training and work preparation.

Improvements are also to be made to two experimental schemes designed to help employment. The Part-Time Job Release Scheme enables those approaching retirement age to work part-time, thus freeing an opportunity for an unemployed person. The Job Splitting Scheme (JSS), provides a grant to an employer who splits an existing full-time job into two part-time jobs. Take up in both schemes has been very disappointing and changes are to be made. The JSS allowance to employers will be increased from £750 to £840 and under the Part-time Job Release Scheme the same allowance will for the first time become payable to employers.

Mr King said the vital element in the package and in Britain's economic recovery itself was training - "training geared to the needs of the labour market". Together with the CBI and the MSC the Government was launching a major national campaign later in November to bring home the crucial importance of training. Mr King said, "Our policy is to improve the quality and flexibility of the labour force and to encourage new enterprise."

These are the measures that flow directly from the Autumn Statement. Mr King told the House of Commons last week that work was continuing on further steps to help improve the prospects for employment.

Sent by Fax 12/11/84

FROM: M PRESCOTT

12 November 1984

cc Mr Beighton
Mr Carr

MR PORTILLO

BUSINESS EXPANSION SCHEME: CHANCELLOR'S STATEMENT

1. I have one or two suggested changes to your draft and, for convenience, I have incorporated these in the revised ... draft attached.

2. It is probably unwise to refer to all BES companies as being involved "in high risk ventures". ~~Of~~ Some 25% of total investment in 1983/84 went to farming companies, and many other companies which raised money were not necessarily "high risk".

3. Probably unwise, too, to refer specifically to BES companies as the ones that will provide "the jobs of tomorrow". Further indepth analysis and research will be needed before we can say whether investment under BES has resulted in genuinely additional expansion (see my note of 5 November to FST on BES Research).

4. The comparison of investment in start-ups under BES with investment during the two years of BSS was covered in paragraph 13 of my note of 31 October to FST. The amount actually invested in companies over the whole two years of BSS was about £20m; the amount invested in start-up companies in 1983/84 under the BES was £41.5m. On this basis, therefore, more than twice was actually invested in start-ups during the first year of BES than during the whole of the two year life of BSS.

5. But as indicated in my note, this comparison is a bit misleading because some of the Approved Funds had actually raised a further £11m under the BSS, but which was carried forward and actually invested under the BES. Adjusting to this - ie by reducing the BES figure, and increasing the BSS figure - investment in start-ups during the first year of BES was still roughly twice the annual amount invested in each of the two BSS years or, putting this another way, was roughly equal to the total amount in the two BSS years taken together.

6. All of this is probably a bit subtle and "inward" for the Chancellor's statement. But if the Chancellor does wish to say something about this, you could perhaps add a sentence on the following lines to my revised draft;

"In its first year alone, the Expansion Scheme raised at least as much money for new businesses as was raised during the whole two-year life of the earlier Scheme".

M. Prescott

M PRESCOTT

RR

CONFIDENTIAL

FROM : S A ROBSON

DATE : 12 NOVEMBER 1984

CHANCELLOR OF EXCHEQUER

c.c. Mr Burgner
Mr Webb
Dr Bird
Mr Ridley

AUTUMN STATEMENT : GAS AND ELECTRICITY PRICES

I attach the supplementary material you wanted.

SAR

S A ROBSON

CONFIDENTIAL

CONFIDENTIAL

FROM: ISABELLE LOW
Reference

DATE: 12 NOVEMBER 1984

PS/CHANCELLOR cc PS/CST
Mr Bailey
Mr Monck
Mr Scholar

AUTUMN STATEMENT: REGIONAL POLICY CHANGES

I attach <u>for the Chancellor's information only</u> a table showing the actual effects of the regional policy changes underlying the Autumn Statement figures. The policy details will not be announced until 28 November; and the moratorium on RDG not until the White Paper is issued. So far as possible, therefore, details should not be revealed at this stage.

CODE 18-78

Isabelle Low

1985-86 EXPENDITURE ON REGIONAL POLICY

CONFIDENTIAL

£m

	DTI	SO	WO	Total
Regional development grant				
1. Baseline	380	–	–	380
2. New policy (plus moratorium)	335	–	–	335
3. Effect on baseline	–45	–	–	–45
Regional selective assistance				
4. Baseline	65	28	18	111
5. New policy	79	38	33	150
6. Effect on baseline	+14	+10	+15	+39
RDG + RSA				
7. Baseline	445	28	18	491
8 New policy (plus moratorium)	414	38	33	485
9 Effect on baseline	–31	+10	+15	–6

(PM)

12/11/84.

Riposte 1

The RHM for Sparkbrook has a cavalier way with facts and predictions. He reminds me of the quack apothecary whose motto was "Dispense with Accuracy".

and/or

When the facts are inconvenient the RHM for Sparkbrook simply ignores them. He reminds me of the German philosopher Hegel who, on being informed that his theories were refuted by the facts replied ...."So much the worse for the facts".

new page

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When the facts are inconvenient the RHM for Sparkbrook simply ignores them. He reminds me of the German philosopher Hegel who, on being informed that his theories were refuted by the facts replied.."So much the worse for the facts".

Of course we cannot expect any consistency from the RHM. He has publicly proclaimed that, and I quote, "Whatever policy the Labour Party stands on at the next election, I will support it".

If required he will stand on his head, he will sit on his hands; his friends often wish he would stamp on his tongue. It is because of his eagerness to please them that the RHM is so often to be found with his foot in his mouth.

New page

Riposte B

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[illegible]

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Our problems did not spring from lack of monetary demand. Demand is rising at 8% pa in money terms and there is plenty more potential demand - at home satisfied by importers and abroad satisfied by our competitors.

Our problems have deepseated structural and cultural roots. And only a radical government like this, which has had the courage to tackle fundamental problems can offer the nation the prospect of overcoming them.

new page

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Riposte 2

[If Hattersley urges investing the capital outflow at home].

The RHG is still new to the job of Economic Spokesman and unfamiliar, it would appear, with even the simplest economic concepts. Does he not realise that if we prevented the outflow of capital investment as he suggests the inevitable consequence would be:

the exchange would rise to a level at which if either choked off an equal value of exports or sucked in an equal value of imports.

This is one of the few aspects of economics on which Keynesian monetarists and virtually all known schools of thought would agree.

new page

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Riposte 3

The RHM cannot simultaneously believe that an incomes policy is essential and that excessive wages will not price people out of work. Either excessive wages lead to no job bosses in which case why have an incomes policy? - or they do destroy jobs.

new page

Riposte 3

The RHM cannot simultaneously believe that an incomes policy is essential and that excessive wages will not price people out of work. Either ~~high~~ excessive wages ~~have no effect~~ lead to no job losses - in which case why have an incomes policy? - ~~or~~ or they do destroy jobs.

Hattersley Bashing

Both the Opposition Parties seem to be scaling down their reflationary bids.

At the General Election Labour fought on the promise of an £18 billion increase in spending. The Alliance, anxious to appear only moderately irresponsible, offered a £9 billion spending programme.

By last week's unemploymented debate, however, the Leader of the Opposition had reduce his demands to £2.3 billion. This clearly left the RHM for Plymouth feeling and sounding a little exposed, when he read out in the same debate his proposed £2.9 billion package. So he quickly abandoned this dash for growth and dashed for cover between government and opposition. On Sunday he announced to thereader of the News of the World, those connoisseur of modesty a modest reflation plan of just £1 billion.

I am not sure quite where this Dutch auction will lead. Maybe within a few months the two opposition parties will be urging us to run a surplus on the PSBR! or (instead of last para)

It is amusing to watch the RH Gentlemen undercutting each other. I suppose they have taken my advice - they are tryuing to price themselves into my job!

new page

Hattersley Bashing Here

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connoisseur On Sunday ~~News of the~~ ~~he~~ announced to the readers of the News of the World, those connoisseurs of modesty ~~that he now only planned to spend~~ ~~World~~ a ~~[illegible] modest £1 billion more than the government.~~ a modest ~~[illegible]~~ reflation plan of just £1 billion.

I am not sure quite where this Dutch? auction will lead. Maybe within a few months the two opposition parties will be urging us to run a surplus on the PSBR!

P.T.O.

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Final draft

Any comments a.s.a.p please
DLC Peretz

cc Ministers
Advisers
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Evans
Mr Scholar
Mr Folger
Mr Gray
Miss Noble

12/11/84.

AUTUMN STATEMENT: DRAFT OF THE CHANCELLOR'S ORAL STATEMENT

With permission, Mr Speaker, I should like to make a statement. As is now customary, I am laying before the House today an autumn statement which contains the Government's outline public expenditure plans for 1985-86, proposals for national insurance contributions next year, and the forecast of economic prospects for 1985 required by the 1975 Industry Act.

The government remains committed to reducing taxation, and therefore to keeping firm control over government spending.

Following this year's public expenditure review, the public expenditure planning total for next year, 1985-86, has been set at £132 billion. As the House will recall, this is slightly below the provisional figure for 1985-86 published in the Public Expenditure White Paper in February.

Say what all nos are at end

Too much.

(1) The government has thus succeeded for the third year running in holding the planning total to the level announced in previous ~~plans~~ white papers

After allowing for inflation public expenditure next year is planned to be broadly the same as was planned for this year, and below the likely outturn for this year, which has been inflated by the cost of ~~maintaining electricity supplies during~~ coal strike the coal strike. With the economy continuing to expand, public expenditure as a percentage of national output should fall next year to its lowest level for six years.

(2)

The revised plans contain a reserve for contingencies of £3 billion. This is £¾ billion less than the provisional reserve for 1985-86 allowed for in the February White Paper, when departmental spending plans for 1985-86 were less well defined, but £¼ billion more than this year's reserve.

The allocation of this £¾ billion to specific expenditure programmes, coupled with an increase in forecast receipts from the privatisation programme, has enabled most, though not all, programmes to show an increase in spending over the White Paper figures.

But to contain these increases to dimensions compatible with the overall £132 billion planning total has required some hard decisions.

Thus there will be increased spending on the National Health Service, but individual health authorities will be expected to become more efficient and to absorb any pay and price increases within the money made available to them. In addition, my RHF the Secretary of State for Social Services has already announced important measures to cut costs by limitations on NHS prescribing, and there will have to be increases in charges.

Again, spending on social security will increase, but to contain the scale of the increase my RHF will be announcing a number of new measures including substantial savings in supplementary benefit provision for board and lodgings claimants. The 5 per cent abatement of invalidity pension which has applied since 1980 will, however, be restored from next November.

Yet again, there will be increased provision for education, partly offset by a reduction in student grants.

By contrast, because fewer young people than expected have ~~needed~~ to take up places on the Youth Training Scheme, my RHF the Secretary of State for

Employment is able to apply some of the consequential savings to expand other employment and training measures, including the Enterprise Allowance Scheme, within a reduced overall total. My RHF will be announcing his new proposals to the House later this afternoon.

Other programmes to have reduced provision include agriculture and housing.

reorder

(3)

Fuller details of these and other changes are contained in the Autumn Statement itself. But I should add that (So I have) the Treasury will be making its own contribution to the need for savings ~~by~~ instructing saved the Bank of England to cease issuing £1 notes after the end of this year, although the note will continue to be legal tender for at least a year. ~~Since~~ The £1 coin has 50 times the life of the note, yet costs less than twice as much to produce. This will save £3 million of public expenditure in the first year alone.

It may be for the convenience of the House if I take this opportunity to announce two other changes in the currency. First, and subject to approval by the Privy Council, the ½ p, which has not been issued since 29 March this year, will cease to be legal tender after 31 December. And second, on Thursday of this week the Bank of England will be issuing a new design of the £20 note which should be more difficult to forge.

Mr Speaker, this year's review of expenditure plans has, as usual, also covered the Government's public spending plans for the two later years, 1986-87 and 1987-88. The details will be published in the usual way, in next year's Public Expenditure White Paper. They will show that total public spending is planned to remain broadly constant in real terms right up to 1987-88 which implies a continuing steady reduction as a proportion of GDP.

I now turn to national insurance contributions. The Government has conducted the usual Autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund.

As last year, I have decided to reduce the taxpayer's contribution to the Fund - the so-called Treasury Supplement - by 2 per cent, bringing it down to 9 per cent. But this will not require any corresponding increase in contribution rates. Thus the full class 1 rate will remain unchanged at 9 per cent for employees and 10.45 per cent for employers. But employers will no longer have to pay contributions on payments under the Statutory Sick Pay Scheme, which in due course will be extended to cover the first 28 weeks of sickness.

As usual, the earnings limits will need to be increased broadly in line with inflation. From next April, the lower earnings limit will rise to £35.50 a week and the upper earnings limit to £265 a week.

Next year, of course, employers will enjoy the full benefit of the abolition of the National Insurance Surcharge which took effect only last month. Taking this into account, the total burden on employers in 1985-86 is expected to be significantly less in real terms than in the current year, 1984-85, despite a rising labour force.

My RHF the Secretary of State for Social Services will this afternoon announce details of the changes in the Social Security (contributions, re-rating) Order, and will lay before Parliament the accompanying report by the Government Actuary.

Finally, I turn to the Industry Act forecast.

Since the Budget, the economy has had to endure a number of testing developments, both at home and abroad, of a sort which not so long ago would have driven it right off course. This time, they have not done so.

Monetary growth has been in line with the targets I set at the time of the Budget, and inflation has ~~accordingly~~ remained low: perhaps 4¾ per cent in the last quarter of this year.

Total national output, which reached its highest level ever last year, looks set to rise by a further 2½ per cent this year. Had it not been for the coal strike, growth this year would probably have been 3½ per cent.

Investment has been rising particularly strongly: indeed, over the economy as a whole, I expect it to reach a new all-time high this year.

Employment has been rising at a brisk pace since early 1983, but not yet strongly enough to check the rise in the numbers of those registering as unemployed.

The outlook for jobs will, however, have been helped by the recent fall in interest rates which largely reverses the increase during the summer. Provided we stick firmly to present policies, the prospect is of further interest rate cuts ahead.

This year's PSBR is likely to turn out higher than the £7¼ billion I envisaged at the time of the Budget, chiefly as a result of the coal strike. If the strike were to end at Christmas, it would add some £1½ billion to borrowing this financial year; and the public expenditure planning total would be exceeded by about the same amount. On that basis, as I indicated to the House on 30 October, I estimate that the PSBR for 1984-85 would be some £8½ billion, subject to the usual margin of uncertainty at this time of the year. A PSBR of this size would still be comfortably the smallest proportion of GDP for well over a decade.

For next year, with continued firm monetary and fiscal policies, inflation is
5 expected to edge down ~~very~~ gently slightly to 4½ per cent by the fourth quarter. Output and employment will continue to rise, with total output expected to be up by a further 3½ per cent in 1985, of which about 1 per cent represents the assumed recovery from the coal strike.

Within this total, the forecast suggests that 1985 will be another good year for exports and industrial investment. Indeed, investment by non-North Sea businesses is expected to rise in real terms by 7 per cent next year, following an 11 per cent rise this year.

The House will wish to know what all this means so far as prospects for next year's Budget are concerned.

The forecast makes the conventional assumptions that income tax allowances and excise duties are both indexed in line with prices and that the PSBR is held next year to the £7bn, or 2 per cent of GDP, indicated in the medium term financial strategy published at the time of the last Budget.

It also takes into account the changes made in this year's Finance Act which will take full effect next year and reduce taxation in 1985-86 by some £1¾ billion. Beyond that, the margin of uncertainty at this stage is very considerable, and the House will understand that the prospects for 1985-86 will need to be reviewed again, in the light of more up-to-date information, before I come to make my Budget judgement next year.

On this basis, I am glad to say that it does look as if there will be scope for some further net reductions in taxes in next year's Budget. I am sure the whole House will welcome this prospect. The best figure I can put on it at the present time is about £1½ billion.

Mr Speaker, the Autumn Statement is now available from the Vote Office and the House will no doubt wish to take it into account when we debate the economy tomorrow.

(6) It shows that for the third year running - that is, for every single year since the Government introduced cash planning for Public Expenditure - spending plans have been held at or below ~~previously~~ published totals. [in previous white papers

It shows too that we are now in the fourth year of steady growth, with a further year of investment- and export-led growth in prospect, and with no sign whatever of a resurgence of inflation. And the numbers in work are rising strongly for only the third time since the 'sixties.

The statement I have published today sets the background against which further reductions in taxation should be possible, to help further stimulate the enterprise and dynamism of the British economy and produce more jobs for our people.

Disingenuous - but true in these terms

Pmf

~~Not that we heard.~~

URGENT

HOUSE OF COMMONS

OFFICIAL REPORTERS

C Hard-cayimed

Pho

THE OFFICIAL REPORTERS will be obliged if

Mr Lawson's PS

will ~~send up his notes/quotations~~

please check whether it was the Chancellor who made the marked intervention.

Thank you

~~[Your speech will need to be sent to the printers approximately~~

~~.. after you finish speaking.~~

~~If it is your intention to come up to read your typescript before~~

~~then, would you kindly tick the box.]~~ ☐

BG

Pmp

13/11/84.

AUTUMN STATEMENT: CHANCELLOR'S ORAL STATEMENT

With permission, Mr Speaker, I should like to make a statement.

As is now customary, I am laying before the House today an Autumn Statement which contains the Government's outline public expenditure plans for 1985-86, proposals for national insurance contributions next year, and the forecast of economic prospects for 1985 required by the 1975 Industry Act.

The government remains committed to reducing taxation, and therefore to keeping firm control over government spending.

Following this year's public expenditure review, the public expenditure planning total for next year, 1985-86, has been set at £132 billion.

AS THE HOUSE WILL RECALL, THIS IS WITHIN THE PROVISIONAL FIGURE FOR 1985-86 PUBLISHED IN THE PUBLIC EXPENDITURE WHITE PAPER IN FEBRUARY.

THE GOVERNMENT HAS THUS SUCCEEDED FOR THE THIRD YEAR RUNNING IN HOLDING THE PLANNING TOTAL TO THE LEVEL ANNOUNCED IN PREVIOUS WHITE PAPERS.

AFTER ALLOWING FOR INFLATION PUBLIC EXPENDITURE NEXT YEAR IS PLANNED TO BE BROADLY THE SAME AS WAS PLANNED FOR THIS YEAR, AND BELOW THE LIKELY OUTTURN FOR THIS YEAR, WHICH HAS BEEN INFLATED BY THE COST OF MAINTAINING ELECTRICITY SUPPLIES DURING THE COAL STRIKE.

WITH THE ECONOMY CONTINUING TO EXPAND, PUBLIC EXPENDITURE AS A PERCENTAGE OF NATIONAL OUTPUT SHOULD FALL NEXT YEAR TO ITS LOWEST LEVEL FOR SIX YEARS.

THE REVISED PLANS CONTAIN A RESERVE FOR CONTINGENCIES OF £3 BILLION.

THIS IS £¾ BILLION LESS THAN THE PROVISIONAL RESERVE FOR 1985-86 ALLOWED FOR IN THE FEBRUARY WHITE PAPER, WHEN DEPARTMENTAL SPENDING PLANS FOR 1985-86 WERE LESS WELL DEFINED, BUT £¼ BILLION MORE THAN THIS YEAR'S RESERVE.

THE ALLOCATION OF THIS £¾ BILLION TO SPECIFIC EXPENDITURE PROGRAMMES, COUPLED WITH AN INCREASE IN FORECAST RECEIPTS FROM THE PRIVATISATION PROGRAMME, HAS ENABLED MOST, THOUGH NOT ALL, PROGRAMMES TO SHOW AN INCREASE IN SPENDING OVER THE WHITE PAPER FIGURES.

BUT TO CONTAIN THESE INCREASES TO DIMENSIONS COMPATIBLE WITH THE OVERALL £132 BILLION PLANNING TOTAL HAS REQUIRED SOME HARD DECISIONS.

THUS THERE WILL BE INCREASED SPENDING ON THE NATIONAL HEALTH SERVICE, BUT INDIVIDUAL HEALTH AUTHORITIES WILL BE EXPECTED TO BECOME MORE

EFFICIENT AND TO ABSORB ANY PAY AND PRICE INCREASES WITHIN THE MONEY MADE AVAILABLE TO THEM.
IN ADDITION, MY RHF THE SECRETARY OF STATE FOR SOCIAL SERVICES HAS ALREADY ANNOUNCED IMPORTANT MEASURES TO CUT COSTS BY LIMITATIONS ON NHS PRESCRIBING, AND THERE WILL HAVE TO BE INCREASES IN CHARGES.

AGAIN, SPENDING ON SOCIAL SECURITY WILL INCREASE, BUT TO CONTAIN THE SCALE OF THE INCREASE MY RHF WILL BE ANNOUNCING A NUMBER OF NEW MEASURES INCLUDING SUBSTANTIAL SAVINGS IN SUPPLEMENTARY BENEFIT PROVISION FOR BOARD AND LODGINGS CLAIMANTS.
THE 5 PER CENT ABATEMENT OF INVALIDITY PENSION WHICH HAS APPLIED SINCE 1980 WILL, HOWEVER, BE RESTORED FROM NEXT NOVEMBER.

YET AGAIN, THERE WILL BE INCREASED PROVISION FOR EDUCATION, PARTLY OFFSET BY A REDUCTION IN SPENDING ON STUDENT GRANTS.

BY CONTRAST, BECAUSE FEWER YOUNG PEOPLE THAN EXPECTED HAVE NEEDED TO TAKE UP PLACES ON THE YOUTH TRAINING SCHEME, MY RHF THE SECRETARY OF STATE FOR EMPLOYMENT IS ABLE TO APPLY SOME OF THE CONSEQUENTIAL SAVINGS TO EXPAND OTHER EMPLOYMENT AND TRAINING MEASURES, INCLUDING THE ENTERPRISE ALLOWANCE SCHEME, WITHIN A REDUCED OVERALL TOTAL. MY RHF WILL BE ANNOUNCING HIS NEW PROPOSALS TO THE HOUSE LATER THIS AFTERNOON.

OTHER PROGRAMMES TO HAVE REDUCED PROVISION INCLUDE domestic support to AGRICULTURE AND HOUSING.

FULLER DETAILS OF THESE AND OTHER CHANGES ARE CONTAINED IN THE AUTUMN STATEMENT ITSELF. BUT I SHOULD ADD THAT THE TREASURY WILL BE MAKING ITS OWN CONTRIBUTION TO THE NEED FOR SAVINGS. THE £1 COIN HAS 50 TIMES THE LIFE OF THE NOTE, YET COSTS LESS THAN TWICE AS MUCH TO PRODUCE.

ACCORDINGLY, I HAVE INSTRUCTED THE BANK OF ENGLAND TO CEASE ISSUING £1 NOTES AFTER THE END OF THIS YEAR, ALTHOUGH THE NOTE WILL CONTINUE TO BE LEGAL TENDER FOR AT LEAST A YEAR.

THIS WILL SAVE £3 MILLION OF PUBLIC EXPENDITURE IN THE FIRST YEAR ALONE.

IT MAY BE FOR THE CONVENIENCE OF THE HOUSE IF I TAKE THIS OPPORTUNITY TO ANNOUNCE TWO OTHER CHANGES IN THE CURRENCY.

FIRST, AND SUBJECT TO APPROVAL BY THE PRIVY COUNCIL, THE ½ P, WHICH HAS NOT BEEN ISSUED SINCE 29 MARCH THIS YEAR, WILL CEASE TO BE LEGAL TENDER AFTER 31 DECEMBER.

AND SECOND, ON THURSDAY OF THIS WEEK THE BANK OF ENGLAND WILL BE ISSUING A NEW VERSION OF THE £20 NOTE WHICH SHOULD BE MORE DIFFICULT TO FORGE.

MR SPEAKER, THIS YEAR'S REVIEW OF EXPENDITURE PLANS HAS, AS USUAL, ALSO COVERED THE GOVERNMENT'S PUBLIC

SPENDING PLANS FOR THE TWO LATER YEARS, 1986-87 AND 1987-88.

THE DETAILS WILL BE PUBLISHED IN THE USUAL WAY, IN NEXT YEAR'S PUBLIC EXPENDITURE WHITE PAPER.

THEY WILL SHOW THAT TOTAL PUBLIC SPENDING IS PLANNED TO REMAIN BROADLY CONSTANT IN REAL TERMS RIGHT UP TO 1987-88 WHICH IMPLIES A CONTINUING STEADY REDUCTION AS A PROPORTION OF GDP.

I NOW TURN TO NATIONAL INSURANCE CONTRIBUTIONS.

THE GOVERNMENT HAS CONDUCTED THE USUAL AUTUMN REVIEW OF CONTRIBUTIONS IN THE LIGHT OF ADVICE FROM THE GOVERNMENT ACTUARY ON THE PROSPECTIVE INCOME AND EXPENDITURE OF THE NATIONAL INSURANCE FUND.

AS LAST YEAR, WE HAVE DECIDED TO REDUCE THE TAXPAYER'S CONTRIBUTION TO THE FUND - THE SO-CALLED TREASURY SUPPLEMENT - BY 2 PER CENT, BRINGING IT DOWN TO 9 PER CENT.

BUT THIS WILL NOT REQUIRE ANY CORRESPONDING INCREASE IN CONTRIBUTION RATES.

THUS THE FULL CLASS 1 RATE WILL REMAIN UNCHANGED AT 9 PER CENT FOR EMPLOYEES AND 10.45 PER CENT FOR EMPLOYERS.

IN ADDITION EMPLOYERS WILL BE RELIEVED OF THE BURDEN OF CONTRIBUTIONS ON PAYMENTS UNDER THE STATUTORY SICK PAY SCHEME, WHICH IN DUE COURSE WILL BE EXTENDED TO COVER THE FIRST 28 WEEKS OF SICKNESS.

AS USUAL, THE EARNINGS LIMITS WILL NEED TO BE INCREASED BROADLY IN LINE WITH INFLATION.

FROM NEXT APRIL, THE LOWER EARNINGS LIMIT WILL RISE TO £35.50 A WEEK AND THE UPPER EARNINGS LIMIT TO £265 A WEEK.

NEXT YEAR, OF COURSE, EMPLOYERS WILL ENJOY THE FULL BENEFIT OF THE ABOLITION OF THE NATIONAL INSURANCE SURCHARGE WHICH TOOK EFFECT ONLY LAST MONTH.

TAKING THIS INTO ACCOUNT, THE TOTAL BURDEN ON EMPLOYERS IN 1985-86 IS EXPECTED TO BE SIGNIFICANTLY LESS IN REAL TERMS THAN IN THE CURRENT YEAR, 1984-85, DESPITE A RISING LABOUR FORCE.

My RHF the Secretary of State for Social Services will this afternoon announce details of the changes in the Social Security (contributions, re-rating) Order, and will lay before Parliament the accompanying report by the Government Actuary.

Finally, I turn to the Industry Act forecast.

Since the Budget, the economy has had to endure a number of testing developments, both at home and abroad, of a sort which not so long ago would have driven it off course.
This time, they have not done so.

Monetary growth has been in line with the targets I set at the time of the Budget, and inflation has remained low: perhaps 4¾ per cent in the last quarter of this year.

TOTAL NATIONAL OUTPUT, WHICH REACHED ITS HIGHEST LEVEL EVER LAST YEAR, LOOKS SET TO RISE BY A FURTHER 2½ PER CENT THIS YEAR.
HAD IT NOT BEEN FOR THE COAL STRIKE, GROWTH THIS YEAR WOULD PROBABLY HAVE BEEN 3½ PER CENT.

INVESTMENT HAS BEEN RISING PARTICULARLY STRONGLY: INDEED, OVER THE ECONOMY AS A WHOLE, I EXPECT IT TO REACH A NEW ALL-TIME HIGH THIS YEAR.

EMPLOYMENT HAS BEEN RISING AT A BRISK PACE SINCE EARLY 1983, BUT NOT YET STRONGLY ENOUGH TO CHECK THE RISE IN THE NUMBERS OF THOSE REGISTERING AS UNEMPLOYED.

THE OUTLOOK FOR JOBS WILL, HOWEVER, HAVE BEEN HELPED BY THE RECENT FALL IN INTEREST RATES WHICH LARGELY REVERSES THE INCREASE DURING THE SUMMER.
PROVIDED WE STICK FIRMLY TO PRESENT POLICIES, THE PROSPECT IS OF FURTHER INTEREST RATE CUTS AHEAD.

This year's PSBR is likely to turn out higher than the £7¼ billion I envisaged at the time of the Budget, chiefly as a result of the coal strike.
If the strike were to end at Christmas, it would add some £1½ billion to borrowing this financial year; and the public expenditure planning total would be exceeded by about the same amount.
On that basis, as I indicated to the House on 30 October, I estimate that the PSBR for 1984-85 would be some £8½ billion, subject to the usual margin of uncertainty at this time of the year.
A PSBR of this size would still be comfortably the smallest proportion of GDP for well over a decade.

For next year, with continued firm monetary and fiscal policies, inflation is expected to edge down slightly to 4½ per cent by the fourth quarter.
Output and employment will continue to rise, with total output expected to be up by a further 3½ per cent in 1985, of which about 1 per cent represents the assumed recovery from the coal strike.

WITHIN THIS TOTAL, THE FORECAST SUGGESTS THAT 1985 WILL BE ANOTHER GOOD YEAR FOR EXPORTS AND INDUSTRIAL INVESTMENT.

INDEED, INVESTMENT BY NON-NORTH SEA BUSINESSES IS EXPECTED TO RISE IN REAL TERMS BY 7 PER CENT NEXT YEAR, FOLLOWING AN 11 PER CENT RISE THIS YEAR.

THE HOUSE WILL WISH TO KNOW WHAT ALL THIS MEANS SO FAR AS PROSPECTS FOR NEXT YEAR'S BUDGET ARE CONCERNED.

THE FORECAST MAKES THE CONVENTIONAL ASSUMPTIONS THAT INCOME TAX AND EXCISE DUTIES ARE BOTH INDEXED IN LINE WITH PRICES AND THAT THE PSBR IS HELD NEXT YEAR TO THE £7BN, OR 2 PER CENT OF GDP, INDICATED IN THE MEDIUM TERM FINANCIAL STRATEGY PUBLISHED AT THE TIME OF THE LAST BUDGET.

IT ALSO TAKES INTO ACCOUNT THE CHANGES MADE IN THIS YEAR'S FINANCE ACT WHICH WILL TAKE FULL EFFECT NEXT

YEAR AND REDUCE TAXATION IN 1985-86 BY SOME £1¾ BILLION.

BEYOND THAT, THE MARGIN OF UNCERTAINTY AT THIS STAGE IS VERY CONSIDERABLE, AND THE HOUSE WILL UNDERSTAND THAT THE PROSPECTS FOR 1985-86 WILL NEED TO BE REVIEWED AGAIN, IN THE LIGHT OF MORE UP-TO-DATE INFORMATION, BEFORE I COME TO MAKE MY BUDGET JUDGEMENT NEXT YEAR.

ON THIS BASIS, I AM GLAD TO SAY THAT IT DOES LOOK AS IF THERE WILL BE SCOPE FOR SOME FURTHER NET REDUCTIONS IN TAXES IN NEXT YEAR'S BUDGET.

I AM SURE THE WHOLE HOUSE WILL WELCOME THIS PROSPECT.

THE BEST FIGURE I CAN PUT ON IT AT THE PRESENT TIME IS ABOUT £1½ BILLION.

MR SPEAKER, THE AUTUMN STATEMENT IS NOW AVAILABLE FROM THE VOTE OFFICE AND THE HOUSE WILL NO DOUBT WISH TO TAKE IT INTO ACCOUNT WHEN WE DEBATE THE ECONOMY TOMORROW.

It shows that for the third year running - that is, for every single year since the Government introduced cash planning for Public Expenditure - spending plans have been held at or below previous White Paper totals.

It shows too that we are now in the fourth year of steady growth, with a further year of investment- and export-led growth in prospect, and with no sign whatever of a resurgence of inflation.
And the numbers in work are rising strongly for only the third time since the 'sixties.

The statement I have published today sets the background against which further reductions in taxation should be possible, to help further stimulate the enterprise and dynamism of the British economy and produce more jobs for our people.

28/4

From: SIR PETER MIDDLETON
Date: 13 November 1984

MR BATTISHILL
MR H P EVANS
MR FOLGER
MR GRAY
MISS NOBLE
MR PRATT
MR SHORT
MISS S ROBINSON

cc Mr Peretz
Mr Broadbent
Mr Bailey
Sir T Burns
Mr Gilmore
Mr Scholar
Mr Watson
Miss Peirson
Ms Seammen
Mr Porteous

AUTUMN STATEMENT

As some of you may know, the timing of the Autumn Statement has this year been a matter of exceptional importance for the Treasury. To publish - and provide briefing for - the Autumn Statement on Monday was a severe test of the Treasury's capacity for meticulous planning and hard work at all hours and under pressure. I congratulate each one of you on the result. Thank you for your own contribution. In being able to rely on you (once again) the department is very fortunate.

P E MIDDLETON

Reference ....

MR WYNN OWEN.

FROM : NEIL MACKINNON
DATE : 13 NOV 1984

PHILLIPS & DREW A.S. ASSESSMENT.

I attach a photocopy of P&D's views on the Autumn Statement which was sent to me this morning.

N. MACKINNON

EB.

CODE 18.78

Mr Wynn Owen.

Pmp.

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 4180

A M G Christopher Esq
Inland Revenue Staff Federation
231 Vauxhall Bridge Road
London SW1

13 November 1984

Dear Mr Christopher,

I understand that you asked whether footnote 4 to Table 2.1 on page 22 of the 1984 Autumn Statement marked a new departure. Last year's Autumn Statement contained a similar footnote to the table setting out the Government Public Expenditure Plans. I enclose a copy of the relevant page from the 1983 Autumn Statement. Footnote 3 refers to the "pay factor of 3 per cent announced on 15 September 1983". The enclosed Press Notice of that date states that "a decision has now been taken to budget for sufficient additional cash in 1984/85 to provide for average increases in rates of pay and allowances of 3 per cent from due settlement dates".

2. In this respect, therefore, there is no difference in the way public expenditure plans have been constructed this year.

Yours sincerely,

Carolyn Sinclair

CAROLYN SINCLAIR

1983 Autumn Statement

Table 2.1 Public Expenditure Plans

£ million

	1983–84	1984–85		
	White Paper (Cmnd 8789) with Budget and other pre-survey changes(1)	White Paper (Cmnd 8789)	White Paper (Cmnd 8789) with Budget and other pre-survey changes	Revised plans(2)
Departments (excluding nationalised industries' external finance)(3)				
Ministry of Defence	15 716	17 288	17 270	17 010
Foreign & Commonwealth Office (including Overseas Development Administration)	1 683	1 801	1 806	1 807
European Community	380	450	450	450
Intervention Board for Agricultural Produce	1 274	835	825	1 247
Agriculture	992	998	994	1 009
Forestry Commission	59	60	60	56
Department of Trade and Industry	1 488	1 370	1 411	1 351
Department of Energy	470	457	457	543
Export Credits Guarantee Department	55	164	164	166
Department of Employment	2 981	3 317	3 376	3 308
Department of Transport	3 366	3 466	3 546	3 537
DOE—Housing	2 709	2 988	2 993	2 496
DOE—Property Services Agency	−145	−115	−116	−92
DOE—Other Environmental Services	3 186	3 227	3 210	3 209
Home Office	4 041	4 253	4 241	4 333
Lord Chancellor's Department	449	509	509	501
Department of Education & Science	12 583	12 912	12 877	13 052
Office of Arts & Libraries	560	584	585	595
DHSS—Health and Personal Social Services	14 478	15 382	15 328	15 414
DHSS—Social Security	34 783	35 939	36 687	36 850
Civil Superannuation	937	1 017	1 036	1 053
Scotland(4)	6 160	6 339	6 339	6 318
Wales(4)	2 397	2 486	2 480	2 459
Northern Ireland	3 796	4 019	4 031	4 020
Other Departments	1 967	2 058	2 069	2 116
Adjustment for refund of VAT on certain services contracted out by Government departments	—	—	—	−30
Nationalised industries	2 748	2 615	2 548	1 882
Local authority current expenditure not allocated to departments	904	455	455	625
Special sales of assets	−1 250	−1 500	−1 500	−1 900
Reserve	1 040	3 000	3 000	3 000
PLANNING TOTAL	119 807	126 374	127 131	126 385

Note:

(1) Including measures announced on 7 July 1983 and changes of classification.

(2) Some figures may be subject to detailed technical amendment before publication of the 1984 Public Expenditure White Paper.

(3) Provision for pay in these programmes reflects the pay factor of 3 per cent announced on 15 September 1983.

(4) Excluding agricultural expenditure, which is included in the agricultural line.

1984 Autumn Statement

Table 2.1 Public Expenditure Plans(1)(2)(3)

£ million

	1984–85	1985–86			
	White Paper (Cmnd 9143) with Budget changes	White Paper (Cmnd 9143)	White Paper (Cmnd 9143) with Budget changes	Revised plans	*Changes between Cmnd 9143 and revised plans*
Departments (excluding nationalised industries' external finance)(4)					
Ministry of Defence	17 000	18 060	18 010	18 060	*0*
Foreign and Commonwealth Office (including ODA)	1 800	1 870	1 870	1 870	*0*
European Community	380	550	550	750	*+200*
Intervention Board for Agricultural Produce	1 250	1 130	1 120	1 310	*+180*
Agriculture	1 000	1 020	1 020	930	*−90*
Forestry Commission	60	60	60	50	*−10*
Department of Trade and Industry	1 350	1 290	1 290	1 360	*+70*
Department of Energy	560	570	590	680	*+110*
Export Credits Guarantee Department	160	30	30	190	*+160*
Department of Employment	3 130	3 250	3 240	3 180	*−70*
Department of Transport	3 540	3 660	3 650	3 290	*−370*
DOE—Housing	2 500	2 610	2 600	2 300	*−310*
DOE—Property Services Agency	−90	−100	−100	−90	*+10*
DOE—Other Environmental Services	3 170	3 270	3 260	3 250	*−20*
Home Office	4 360	4 540	4 510	4 590	*+50*
Lord Chancellor's Department	500	550	550	540	*−10*
Department of Education & Science	13 050	13 450	13 380	13 590	*+140*
Office of Arts and Libraries	600	620	620	640	*+20*
DHSS—Health & Personal Social Services	15 420	16 270	16 200	16 480	*+210*
DHSS—Social Security	37 200	39 520	39 510	39 990	*+470*
Civil Superannuation	1 050	1 130	1 130	1 070	*−60*
Scotland	6 550	6 720	6 700	6 810	*+90*
Wales	2 560	2 650	2 640	2 660	*+10*
Northern Ireland	4 030	4 220	4 210	4 240	*+20*
Other Departments	2 070	2 160	2 150	2 130	*−30*
Nationalised Industries	1 830	1 140	1 060	1 320	*+180*
Local authority current expenditure not allocated to departments	660	400	400	600	*+200*
Special sales of assets	−1 900	−2 000	−2 000	−2 500	*−500*
Reserve	2 750	3 750	3 750	3 000	*−750*
PLANNING TOTAL(5)	**126 300**	**132 100**	**131 700**	**132 000**	*−100*

Notes

(1) Some figures may be subject to detailed technical amendment before publication of the 1985 Public Expenditure White Paper.

(2) Departments' figures shown are rounded to the nearest £10 million; the planning total is rounded to £100 million.

(3) All columns include minor classification changes since Cmnd 9143. The revised plans column also includes a transfer of provision for London Regional Transport of some £330 million from Department of Transport to Nationalised Industries; and a transfer for work-related non-advanced further education of some £60 million from Department of Education and Science to Department of Employment (see paragraphs 2.13, 2.14 and 2.26).

(4) Provision in these programmes reflects an assumption that central government rates of pay and allowances will increase on average by 3 per cent from due settlement dates.

(5) Excludes double counting of £290 million of agricultural spending in Scotland and Wales which is also included in the Agriculture total.

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233 3415
Telex: 262405

15 September 1983

PUBLIC EXPENDITURE PLANNING AND PAY

Public expenditure plans for 1984-85 will include an aggregate provision of 3 per cent for the effect of increases in rates and allowances resulting from future pay settlements for those groups for which the Government is directly responsible.

It is usual at this time of year for the Government to review its cash plans for public expenditure. As part of the process of reaching final decisions about 1984-85 it is necessary to decide the provision for wages and salaries. This provision is determined principally by numbers employed and the rates at which they are paid.

A decision has now been taken to budget for sufficient additional cash in 1984-85 to provide for average increases in rates of pay and allowances of 3 per cent from due settlement dates.

This decision concerns the cash provision made in the public expenditure plans. Similar assumptions have been made in previous years. It is not a pay norm. Nor does it determine the level of any particular settlement. Each settlement will be dealt with individually.

The assumption applies to the provision made for all central government pay, including the civil service, the armed forces and the health service,. and to certain other pay-related expenditure. As in previous years, it does not cover the local authorities nor the nationalised industries, which are not within the Government's direct control, but which will be constrained respectively by the rate support grants and by External Financing Limits.

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233 3415

169/83

NOTES FOR EDITORS

A similar announcement about the provision for pay in 1983-84 was made on 1 October last year, when the corresponding figure was 3½ per cent.

The Government's plans for total public expenditure for 1984-85 and later years are still being considered. An announcement will be made later in the year. Today's announcement is part of the preparation of those plans.

.1

UNCLASSIFIED

Chancellor
12/2.

pl
~~mark~~
copy
up.

COPY NO: 1

1984 AUTUMN STATEMENT BRIEFING

Revisions and corrections

1. Because of the exceptionally tight timetable and security restrictions which governed preparation of the briefing circulated on 12 November, a few small slips found their way in.

2. The attached note "A" lists the necessary changes, which users can conveniently enter in manuscript.

3. Attached as note B is a little additional material for brief E2.

B A Collins
EB Division
HM Treasury

14 November 1984

note A

brief

A. para 1.6 should read

"...with public expenditure plans maintained and an assumed £7bn PSBR there should be scope for..."

para 3.5

second indent should read:

"...of arbitrary changes in NIC system often not....Big increase in starting point for employer NIC, for example, could..."

B3 defensive (vii), answer should read:

"Recent announcement of 1 December mortgage rate cut consistent with forecast assumption on mortgage rates in 1985."

J4 factual (i), should read:

"...of which some £60 million relates to pre-funded CAP schemes, amounts to about 9 per cent."

J17 opening rubric: reference to written PQ [which did not in the event proceed] should be deleted

factual (v) figure in bracketted section should read 30, not 50.

FROM: A M W BATTISHILL
DATE: 15 November 1984

MR PERETZ

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton (o/r)
Sir T Burns (o/r)
Mr Littler (o/r)
Mr Bailey
Mr Cassell
Mr Monck
Mr Unwin (o/r)
Mr Burgner
Mr H P Evans
Mr Fitchew (o/r)
Mr Lankester
Mr Lovell
Mr Scholar
Mr Culpin
Mr Hopkinson
Mr Bonney
Mr Pratt
Mr Ridley (o/r)

Mr Hosker - Treasury Sol

AUTUMN STATEMENT: TCSC

The Chancellor will want to know the outcome of the Treasury Committee's meeting last evening.

2. The Clerk tells me that the Committee agreed to invite the Chancellor to give evidence to them on Wednesday 28 November (after the close of BT subscriptions), preceded by Treasury officials on Monday 26 November. That is a satisfactory outcome.

3. To everyone's surprise, however, the Committee decided that under the guise of their Autumn Statement enquiry they also wished to take evidence from Treasury officials on 2 particular questions next Monday, 19 November. The first of these is Mr Higgins' own preoccupation (which is apparently shared by Mr Beaumont Dark) with the economics of storing large quantities of UK grain as against shipping them to Ethiopia. This was one of the points in Mr Higgins' speech during the Economic Debate on Tuesday and he mentioned it again when interviewed yesterday in the "Today" Programme. Since then, of course, Mr Raison has exploded Mr Higgins' arithmetic at Question Time yesterday.

4. I understand from Mr Mountfield that the Foreign Affairs Committee are already enquiring into this area, and that they will be receiving a memorandum from the ODA by Monday dealing specifically with the point Mr Higgins has raised. Although the Clerk to the Treasury Committee was not aware of this when he spoke to me last night, I have confirmed with him this morning that he is now in the picture. He is doubtful whether this will divert the Treasury Committee from their original intention, but he will be checking with Mr Higgins later this morning.

5. I understand too that the Committee were intending to focus their questioning on what they see as an apparent lack of co-ordination between these two aspects of Government policy. That would be their cover for questioning the Treasury - though they would not be surprised if ODA and MAFF officials attended as part of the team. The risk in all this is that having got such a team before them the Committee might well take the opportunity to ask a lot more questions about the aid budget or about agriculture - particularly if they quickly found there was little mileage to be had from the grain stocks issue. I am assured this is not their intention, but past experience suggests the risk is real.

6. I have alerted those concerned in the Treasury so that they can consider how best to advise. But in view of the sensitivities surrounding the aid programme you may feel that there should be a short discussion with the Chancellor if he has time to fit one in today. The Select Committee intend to issue a press notice later today.

7. The Select Committee's second chosen subject for Monday also raises difficulties. They want to invite back Mr Unwin for a further discussion of developments since Fontainbleau and Mr Budgeon's worries about enforcement (and, I gather, particularly the milk super-levy). The Committee apparently see this as a prelude to some questions they wish to put to the Chancellor on 28 November, about which they will be writing. Mr Unwin and Mr Fitchew are both at present in Luxemburg, but I have alerted Mr Hopkinson.

8. There is one final point. For the main sessions on the Autumn Statement on 26 and 28 November the Committee will want to ask questions about the coinage. I hope to find out rather more in due course so that we can consider whether, for example, there will need to be support from the Mint.

AMB

A M W BATTISHILL

From the Chairman

c/ Just arrived.

MOM Fossel

15/11

JJ Batts

Bry Dampsher

RC

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A OAA
01-219 (Direct Line)
01-219 3000 (Switchboard)

CH/EXCHEQUER
REC. 15 NOV 1984
ACTION Mr Battishill √ 15/11
COPIES TO CST, FST, EST, MST
Sir P. Middleton
Sir T. Burns
Mr Bailey
Mr Littler Mr Ridley
Mr Monck Mr Lord
Mr Lovell Mr Portillo
Mr Bostock
Mr Bonney
Mr Mountfield
Mr Beastall

TREASURY AND CIVIL SERVICE COMMITTEE

15th November 1984

Dear Chancellor,

The Committee met yesterday and decided on the arrangements for the examination of the Autumn Statement. It is our aim to produce a Report in time for a debate in the House on or about 6 December.

The Committee will be holding the usual session of evidence with officials to clear the ground before your own appearance. This will take place on 26th November ahead of your own appearance on 28th November.

The Committee is also due to see two groups of officials on Monday next, 19 November. The first group will be asked questions about the role of the Treasury in coordinating expenditure on agricultural surpluses and food aid, including emergency aid (including the presentation of the relevant figures in the Autumn Statement). The second group will be asked about European Community expenditure and progress towards agreed measures for budgetary discipline, with special reference to the apparent failure to establish effective arrangements for collecting payments from producers in respect of the so-called "superlevy" in the dairy sector. I expect that Members of the Committee will wish to take the opportunity to follow up these particular matters when you give evidence on 28 November.

As ever,

Terence

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

(pmp)

FROM: THE CHANCELLOR
DATE: 16 November 1984

MR BATTISHILL

cc Sir P Middleton
Mr Bailey
Sir T Burns
Mr Evans
Mr Scholar
Mr Folger
Mr Gray
Ms Seammen
Mr Pratt
Mr Perfect
Miss Noble

AUTUMN STATEMENT

I am most grateful to you, and all those concerned in the preparation and production of the Autumn Statement this year, both for the tremendous amount of work you put into it and for the fact that, despite the exceptionally tight timetable, the whole operation was conducted so successfully.

I have copied this note to those whom I know to have been closely involved, but I would also very much like to pass on, through you, my thanks to everyone else who took part in an exercise which demonstrated the public service at its best.

Nigel Lawson

NIGEL LAWSON

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Mr Ridley
Mr Portillo
Mr Lord

c/ Drafted by Mr Hopkinson a vetted by Mr Battishill

DRAFT LETTER TO:

Ok as amended MOM 15/11

Rt Hon T

MR HIGGINS MP

House of Commons

16/11/84.

Thank you for your letter of 15 November about the arrangements for your Committee's examination of the Autumn Statement, ~~and the questioning of officials next week.~~

I note that you are planning to question officials next week on ~~would wish to ask about~~ expenditure on agricultural surpluses and food aid and ~~about~~ on any Budget Discipline and the "super levy". However, ~~On the latter~~ last ~~I have to say that this seems to me~~ The last topic is, however, a matter on which only MAFF can speak with any authority, and I fear that Neither I nor my officials will therefore ~~would~~ be able to answer questions ~~provide your~~ informatively on it ~~Committee with substantial help~~. I hope, therefore, that on reflection you will agree that the examination of the Treasury should be confined to Budget any Discipline and other matters within the Treasury's competence (which will of course include ~~and~~ the Treasury's role in co-ordinating expenditure on agricultural surpluses and food aid).

I have arranged for a copy of the text of the Council's common ~~agreed~~ position on Budgeting Discipline to be placed in the Library; and I enclose a copy for ~~your information~~. Yours

318.37

cc CST
FST
EST
MST
Sir P Middleton
Sir T Burns
Mr Battishill
Mr Bailey
Mr Littler
Mr Monck
Mr Lovell
Mr Bostock
Mr Bonney
Mr Mountfield
Mr Beastall
Mr Unwin
Mr Fitchew
Mr Hopkinson
Mr Ridley
Mr Lord
Mr Portillo

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Rt Hon Terence Higgins MP
House of Commons
London SW1A OAA

16 November 1984

Dear Terence

Thank you for your letter of 15 November about the arrangements for your Committee's examination of the Autumn Statement.

I note that you are planning to question officials next week on expenditure on agricultural surpluses and food aid and on Budgetary Discipline and the "super levy". The last topic is, however, a matter on which only MAFF can speak with any authority and I fear that neither I nor my officials will be able to answer questions informatively. I hope, therefore, that on reflection you will agree that the examination of the Treasury should be confined to Budgetary Discipline and other matters within the Treasury's competence (which would of course include the Treasury's role in co-ordinating expenditure on agricultural surpluses and food aid).

I have arranged for a copy of the text of the Council's common position on Budgetary Discipline to be placed in the Library and I enclose a copy for you.

Yours ever
Nigel

NIGEL LAWSON

BUDGETARY DISCIPLINE

Attached is the text of the common position on budgetary discipline reached by the ECOFIN Council in Brussels on 12 November and endorsed by the Foreign Affairs Council on the same date. It is expected that formal adoption of the text as Conclusions of the Council will take place after a meeting between the Council and a delegation of the European Parliament to discuss budgetary discipline. This meeting is scheduled to take place on 21 November. Article 1 of the ECOFIN text refers to a Communication from the Commission to the Council of 6 March on the control of agricultural expenditure (COM(84)83). An extract from this Communication is included as an annex to the text of the Council's common position. The procedures described in the annex form an integral part of the budgetary discipline system.

Conclusions of the Council on the measures necessary to guarantee the effective implementation of the conclusions of the European Council on Budgetary Discipline.

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaties establishing the European Communities,

Whereas at its meetings on 19 and 20 March and 25 and 26 June 1984 the European Council reached agreement on a series of decisions and guidelines to ensure the relaunch of the Community and establish a solid basis for its further development during the present decade:

Whereas principles on budgetary and financial discipline are specifically laid down;

Whereas the European Council considered it essential that the rigorous rules which at present govern budgetary policy in each Member State shall also apply to the budget of the Communities, and stated that the level of expenditure will be fixed on the basis of available revenue, and that budgetary discipline will apply to all budgetary expenditure;

Whereas the European Council invited the Council of Ministers to adopt the measures necessary to guarantee the effective application of the principles as set out in its conclusions,

HAS ADOPTED THE FOLLOWING CONCLUSIONS :

Article 1

1. At the beginning of the budgetary procedure each year, the Council shall fix a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year in accordance with Articles 2 to 5 inclusive and Article 9.

2. In order to fix the reference framework, the Council shall act by qualified majority in accordance with Article 148(2), second indent of the EEC Treaty.

3. The relevant provisions of the financial guidelines concerning the Common Agricultural Policy, set out in the Annex to the Commission communication of 6 March 1984, shall be implemented; these provisions are annexed to these Conclusions.

Article 2

The Council shall ensure that the net expenditure relating to agricultural markets calculated in accordance with Article 4, will increase by less than the rate of growth of the own resources base. This development shall be assessed on comparable bases from one year to the next.

Account shall be taken of exceptional circumstances, in particular in connection with enlargement.

Article 3

The amounts to be taken into account for the application of Article 2 shall be :

(a) as regards expenditure :

that chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the Budget. The calculation of agricultural expenditure for the purposes of the guideline referred to in Article 2 shall be this expenditure, reduced by the sum of amounts corresponding to the marketing of ACP sugar, refunds in connection with food aid and the payments by producers in respect of the sugar and isoglucose levies as well as the revenue from any future internal agricultural charges;

(b) as regards the own-resources base :

the potential revenue on the basis of which Titles 1 and 2 of the Revenue side of the Budget are determined. The calculation of the Community's own resources base for the purposes of the guideline referred to in Article 2 shall be the total VAT base upon which the VAT rate of the year in question is calculated, the amount of financial contributions (if any) included in the Budget of the year, together with the own resources, other than those derived from VAT, set out in Revenue Title 1, less the sugar and isoglucose levies as well as the revenue from any future internal agricultural charges.

When the potential revenue from VAT is changed following an alteration in the VAT ceiling, the guideline provided for in Article 2 shall thereafter be calculated as if the new maximum VAT rate had been applied in all the years relevant to the calculation of the guideline.

ARTICLE 4

The level of net expenditure relating to agricultural markets for a given financial year shall be calculated as follows :

(a) the level of expenditure, as defined in Article 3(a), shall be the average of the actual outturn expenditure for 1984, and the best estimate of the outturn for 1985;

(b) the own resources factor shall be established by dividing the forecast level of the own resources base for the financial year in question, as defined in Article 3(b), by the average own resources base for 1984 and 1985,

(c) the level of expenditure for the financial year in question shall be determined by multiplying the amounts obtained by the application of paragraphs (a) and (b), unless the Council acting by the majority defined in Article 1(2) decides otherwise;

(d) the method of calculation shall be re-examined in accordance with the Fontainebleau conclusions under the heading "budgetary imbalances" on the basis of the report to be presented by the Commission one year before the 1.4 percent VAT ceiling is reached.

Article 5

In the event of failure to respect the qualitative guideline referred to in Article 2, the Council shall, during the following two financial years, ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by this guideline. In so doing, the Council shall concentrate its activity primarily on the production sectors responsible for the failure to adhere to the guideline.

Article 6

1. The Council shall, when exercising its powers as legislative authority or branch of the budgetary authority, ensure that the reference framework is respected.

2. At the request of a member of the Council or the Commission, the Council, acting by the majority referred to in article 1(2), may amend the reference framework.

Article 7

1. Except in the case of decisions mentioned in paragraph 4, when the Council is on the point of adopting an act which appears likely to increase expenditure for a financial year beyond the reference framework applicable to that year, the adoption of that act shall, at the request of a member of the Council or the Commission, be suspended.

2. Within a period not exceeding one month, the Council, acting by the majority referred to in Article 1(2), shall determine whether the proposed act would, if adopted, lead to the reference framework being exceeded.

3. If the Council concludes that the proposed act would, if adopted, lead to the reference framework being exceeded, it shall reconsider the proposed act with a view to taking appropriate measures.

4. In the case of decisions affecting net expenditure relating to agricultural markets, the procedures laid down in paragraphs 5(c) and 6(b) of the Annex to the Commission's communication of 6 March 1984 shall apply.

Article 8

When the Council is on the point of adopting an act which has considerable financial implications for several years, the Council shall, before taking the final decision, formulate an opinion on whether the financial implications of the proposed act are compatible with the principles and guidelines governing the Community's budgetary policy.

Article 9

1. The Council shall comply with the maximum rate provided for in Article 203(9) of the EEC Treaty throughout the budgetary procedure.

2. In order to achieve this :

- when establishing the Draft Budget, the Council shall keep the increase in expenditure other than that necessarily resulting from the Treaties or from acts adopted in accordance therewith to a level no higher than half the maximum rate provided for in Article 203(9);

- at the second reading, the Council shall adopt a position such that the maximum rate is not exceeded.

3. Paragraphs 1 and 2 of this Article are without prejudice to the provisions of Article 203 of the EEC Treaty, particularly those of the last subparagraph of paragraph 9.

Article 10

On the assumption that the 1986 budget will be prepared on the basis of own resources being increased in that year, these conclusions shall first apply to the exercise of the Council's powers in 1985 concerning expenditure in the financial year 1986.

Extract from the Commission Communication of 6 March 1984

referred to in Article 1 par. 3

" 5. As regards the decisions which have a determinant effect on the volume of agricultural expenditure, that is the decision on agricultural prices which the Council of Agriculture Ministers must take each year on a proposal from the Commission, the Commission proposes the following rules:

(a) When submitting its agricultural proposals the Commission will supply a quantified estimate of their budget impact in relation to the movement in the growth of the Community's own resource base calculated according to a common and constant formula, namely the sliding average of the growth rates for the current year, the year immediately preceding and the year ahead. These figures will allow a judgement to be made of the compatibility of the proposals with the guideline referred to in §2.

(b) The Commission will draw up its proposals on prices (and related measures) in the light of the guideline referred to in §2. To this end the Commission confirms that it intends in the coming years to pursue a restrictive price policy for sectors in surplus and for those where a rapid growth in expenditure is coupled with limited outlets for disposal.

(c) On this basis the Commission suggests that the European Council request the Council to adopt the following rule: if in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session.

6. As regards the preparation and implementation of the budget the Commission proposes the following rules:

(a) In submitting its budget proposals in the context of its preliminary draft budget the Commission will take account of all foreseeable expenditure in the budget year concerned, including that stemming from its price proposals.

The aim of the Commission and the Council will thus be to keep EAGGF Guarantee expenditure within the appropriations for the year.

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(b) The Commission will institute an early-warning procedure enabling it to detect promptly any risk during the year of budgetary over-runs and report to the Council and Parliament forthwith(4).

It will in any event report to the Council and Parliament each month on the trend of agricultural expenditure.

After making use of all the opportunities afforded by the routine management of the CAP it will if need be propose to the Council and Parliament measures designed, without detriment to the principles of the CAP, to restrict increases in agricultural expenditure. It will be incumbent on those institutions to take the necessary decisions as speedily as possible so that these measures can achieve their purpose. Where appropriate the Council's decisions could be taken at a special session of the kind referred to in §5(c).

The Commission will not introduce a supplementary budget until it has exhausted all the opportunities for savings afforded by the routine management of the CAP and by any additional Council decisions.

(c) In the event of failure to respect the qualitative guideline referred to in §2 (by reason either of a special Council decision (§5(c)) or of a supplementary budget), adherence thereto will mean both the Council and the Commission must during the following two financial years ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by the qualitative guideline. In so doing they must concentrate primarily on the production sectors responsible for the failure to adhere to the guideline."

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(4) Apart from a Council decision on prices in excess of the Commission's proposals (when the special decision-making procedure in §5(c) would apply), such "over-runs" could only occur as a result of compelling economic developments which could not have been foreseen when the budget was adopted.

The Economy

3.50 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): With permission, Mr. Speaker, I should like to make a statement.

As my predecessor did last year, I am laying before the House today an autumn statement which brings together certain matters customarily announced at this time of year. The statement contains the Government's outline public expenditure plans for 1984-85, proposals: for national insurance contributions for next year, and the forecast of economic prospects for 1984 required by the Industry Act.

In response to firm monetary policies the past year has seen falling inflation, renewed growth and solid evidence of our continuing recovery from world recession. Progress both on inflation and on growth this year has been better than expected at the time of the Budget.

Since the low point of the recession in early 1981, output has grown by about 5 per cent. inflation has fallen from double figures to around 5 per cent., and there have been significant gains in productivity, competitiveness and profitability. Employment appears now to be rising, and unemployment to be levelling off. Output this year is expected to be about 3 per cent. higher than in 1982, and the Industry Act forecast points to continuing growth next year. Recovery in the rest of the world, so far hesitant outside North America, is now widely expected to show some improvement. With higher exports offsetting some slowdown in the growth of domestic demand, overall United Kingdom output is forecast to rise by a further 3 per cent. in 1984. With inflationary pressures remaining weak, inflation is likely to edge down again next year to a rate of around 4·5 per cent. by the fourth quarter.

Downward pressure will continue to be exerted on public borrowing. Despite the measures I announced on 7 July it is clear that this year's public sector borrowing requirement is likely to be above the £8·2 billion expected at the time of the Budget. The outturn is, of course, still uncertain but is now forecast to be £10 billion, mainly as a result of public expenditure running higher than expected, as I indicated to the House on 7 July.

For next year, 1984-85, the forecast makes the conventional assumptions that the direct taxes and excise duties are both revalorised in line with prices, and that the PSBR is held next year to the £8 billion assumed at the time of the last Budget in accordance with the medium term financial strategy. On this basis the forecast implies the need for some net increase in taxes in next year's Budget. As the House will recognise, this is, of course, at this stage, subject to a wide margin of uncertainty, and will need to be reviewed, with other relevant factors, in the light of more up-to-date information, before I come to make my Budget judgment.

Following this year's public expenditure review, the public expenditure planning total for next year, 1984-85, will remain at £126·4 billion. The House will recall that that was the provisional figure for 1984-85 published in the public expenditure White Paper in February this year. It is also broadly the same in real terms as the likely outturn for this year, 1983-84. So, with the economy expanding, public expenditure should continue to fall as a percentage of gross domestic product next year.

Within the unchanged total for 1984-85 there have inevitably been changes in both directions in individual programmes. The details are contained in the autumn statement itself. In broad terms, it shows increases in spending for health and personal social services, education, law and order, agricultural support, arts and libraries, and a number of other programmes. Social security spending will also increase, although there will be reductions in the coverage of help with housing costs, particularly housing benefit. The social security programme provides for an uprating in November 1984 based on the rise in prices in the 12 months to May 1984.

These increases are offset by higher receipts from the sale of council houses and the like, and by a reduction in planned spending on home improvement grants, defence, employment, trade and industry, and several other programmes, including the aggregate external financing limits of the nationalised industries. Net receipts from special sales of assets are forecast to increase by some £400 million, reflecting, among other things, the fact that the privatisation of Enterprise Oil is now expected not this year but in 1984-85.

As the House will be aware, the February White Paoer provided for a provisional contingency reserve of £3 billion. That figure remains intact.

The 1983 review of expenditure plans has, of course, also covered 1985-86 and 1986-87. Details of the plans for both those years will be published in next year's public expenditure White Paper.

The Government have also reviewed their manpower requirements for the years up to 1988. My right hon. and learned Friend the Chief Secretary to the Treasury is today publishing details of our new plans for a continued steady reduction in the size of the Civil Service. Numbers will come down to 593,000 by 1988, a fall of 6 per cent. below the existing target of 630,000, which we expect to be achieved on or before 1 April 1984.

I come, lastly, to national insurance contributions. As the House knows, these are reviewed every autumn in the light of advice from the Government Actuary on the prospects for the national insurance fund in the coming financial year. As usual, the earnings limits will need to be increased. The lower earnings limit will rise to £34 a week, in line with the single rate retirement pension, and the upper earnings limit will rise to £250 a week, broadly in line with the increase in prices and earnings. The taxpayers' contribution to the fund — the so-called Treasury supplement — will be reduced from 13 per cent. to 11 per cent. Finally, in each of the past four years we have had to increase the class I national insurance contribution rate itself. I am glad to say that we shall not need to do so for 1984-85. So the full class I rate will remain unchanged at 9 per cent. for employees and 10·45 per cent. for employers. As is customary, my right hon. Friend the Secretary of State for Social Services will this afternoon announce details of the changes in the Social Security (Contributions, Re-rating) Order and will lay before Parliament the accompanying report by the Government Actuary.

As my right hon. Friend the Leader of the House has already announced, the House will have an opportunity next week to debate the autumn statement, which is now available from the Vote Office.

For the first time for many years we are now enjoying low inflation combined with steady growth. This is a winning combination. Our task is to keep that winning combination by sticking to—and indeed reinforcing—the policies that have brought it about.

Mr. Roy Hattersley (Birmingham, Sparkbrook): The whole House will hope that the Government's forecasts of recovery and growth will be proved right this time. Can the Chancellor reinforce that hope by telling us why his forecasts about the economic prospects are markedly more optimistic than those of any of the independent forecasts — more optimistic, indeed, than those of the Confederation of British Industry, particularly in terms of investment prospects? I shall make the charitable assumption that the Government's predictions are accurate and objective. On that hypothesis, will the Chancellor confirm that, even on his own figures, living standards in this country, after four and a half years of Conservative Government, are still lower than they were under a Labour Government in 1979, and that the overall level of output is no higher than it was when the Labour Government left office?

If we take into account the contribution made to our economic condition by the wholly fortuitous oil output — the figures for which have mysteriously been removed from most of the Government's statistical abstracts—there has been, during four and a half years of Conservatism, a calamitous fall in output in this country. Will the Chancellor also confirm that manufacturing output will be lower at the end of the life of this Parliament than it was when the Government took office, and that at the present rate of growth there will not be a return to Labour levels of output until after 1993?

Furthermore, will the Chancellor admit that the signs of life about which he has been so jubilant are at least in part the result of the brief recovery in housing investment and the relaxation of public expenditure controls on monetary policy, which were introduced in preparation for the election last spring? Today's improvements stem from the temporary reversal, not from the long-term success, of Government policy. Instead of learning that lesson, the Government now propose to return to their obsession with public expenditure.

In the light of that, I ask the Chancellor a number of specific questions. Why could he not bring himself to tell the House about the adjustments to fuel prices that he is forcing? It would have done him and the Government more credit had he faced that today rather than punish his right hon. Friend the Secretary of State for Energy— who did not want the increases — by forcing him to make a subsequent announcement.

I shall ask the right hon. Gentleman about the fuel price increases, which we all know are coming, and about which the boards complain. Why did he not tell the House honestly—will he eventually tell the House—that the gas and electricity price increases on which he is insisting, and which are part of his economic prescription, are a badly disguised fuel tax; that the Gas Corporation could cut prices by 10 per cent. and still have an operating profit of £150 million; and that the electricity boards exceed Government profit targets by £500 million? Will he try to justify forcing those utilities into increasing their prices in a way that damages industry and causes immense hardship to domestic consumers?

Secondly, will the Chancellor tell us more about tax increases? The total tax bill under this Government has increased from 39·6 per cent. of national income to 45·7 per cent. Therefore, £18 billion more is taken in tax than was the case under the Labour Government. According to this statement, higher taxes are on the way. When does the Chancellor hope to be able to return to the level of taxation enjoyed by this country under the Labour Government?

Thirdly, when will the Chancellor come to grips with the reality rather than the mythology of economic management? Today he talked about the monetary and fiscal targets as if they were mystic numbers that have an independent virtue. He was particularly proud of holding public expenditure to £126·4 billion. I congratulate him on keeping faith with arithmetic, but to do so he has broken faith with the electorate.

Today the Chancellor has spoken of his forecasts requiring increased taxes. Is he softening up the 1922 Committee and the public for what he is proposing next March? If we are to have more taxes in the spring can we be assured that they will fall upon those people most able to bear them rather than concentrating on the lower income group, as has been his practice?

Finally, will the Chancellor confirm that unemployment has risen by 2 million in four and a half years under this Government, and on honest calculations by 218,000 over the past year? He now asks us to be grateful for the fact that it has fallen by a measly 7,000. That amounts to 0·35 per cent. of the unemployment that the Government have created. Is it not a fact that, even if the Chancellor's wildest predictions are true, that under present policies, there will be no significant fall in unemployment during this Parliament's lifetime? If I am wrong, will the Chancellor forecast unemployment over the next four years? If he will not, his policy and that of the Government stand utterly condemned.

Mr. Lawson: May I start by welcoming the right hon. Gentleman to his new shadow office. I am sure that he will improve with time. I shall reply briefly to his specific questions. During the previous Parliament we were able to reduce income tax at all levels. However, we were not able to reduce the overall burden of taxation. Given the continuation of existing policies, we shall be able to reduce the overall burden of taxation during this Parliament's lifetime. As for the next Budget, however, the right hon. Gentleman will have to wait and see.

On unemployment, the right hon. Gentleman should know that no Government—even those of whom he has been a member — ever make a long-term forecast of unemployment. Both sides of the House share his hope that unemployment will fall. It is not a matter that is entirely within the Government's control, as he should know.

The right hon. Gentleman asked me about fuel prices. Gas and electricity prices are in no sense a hidden tax. Perhaps I may explain the position to the right hon. Gentleman.

"the principle that prices should reflect costs of supply on a continuing basis while providing an adequate return on capital is now firmly established. Prices are important, above all, because they are all-pervasive, affecting the millions of individual decisions over which the Government can have no direct control. . . . Since the object is to guide investment and other decisions that will affect future events, the relevant cost is the cost incurred or saved in expanding or contracting supplies at present or in the future, rather than an average of past costs. Energy prices should at least cover the cost at which supplies can be provided on a continuing basis, while yielding an adequate return to investment."

I am quoting from the Labour Government's Green Paper published in 1978, when the right hon. Gentleman was Secretary of State for Prices and Consumer Protection.

Mr. Hattersley: The House will have noticed that, to those questions that I was able to cobble together in my apprentice incompetence, there has been no answer, except for a quotation from my former right hon. and temporarily departed friend Mr. Benn, which referred to a time when we were not making substantial profits in gas and electricity but were moving towards those utilities breaking even. We shall pursue the Chancellor in the hope, though it may be in vain, that he will answer some of the questions in a week's time.

Today I simply return to one question. The Chancellor tells us that he cannot give us an unemployment forecast. I therefore put this to him. Why was he so ready to make predictions about unemployment during the general election campaign but fails to do so under the scrutiny of the House of Commons? As I have no more faith in him answering that question than any of the others, I shall tell him that the reason why he will not make any predictions about unemployment today is that the prospects of growth and recovery are as bogus as he is complacent.

Mr. Lawson: I am sorry that the right hon. Gentleman should react to good economic news in such a sour and grudging way. During the election campaign I said that there was a good chance that unemployment might start to fall during 1984. That is still the case, but it remains to be seen whether it does. Meanwhile, the right hon. Gentleman will be aware that over the past three months adult unemployment, seasonally adjusted, has fallen by 7,000.

Mr. Edward du Cann (Taunton): Many of us believe that, besides satisfying other social needs, a greater degree of employment in the construction industries needs to be created. During my right hon. Friend's term of office, which we all hope will be long and successful, will he ensure that a greater proportion of Government expenditure goes on capital projects, and that the bias in favour of administration and against capital projects is removed? Not least, will he take an initiative to ensure that capital projects, wherever possible, are privately funded? In that way it will be possible to transform the employment position in the construction industries to which I have referred.

Mr. Lawson: I respect my right hon. Friend's interest in that matter, which he has pursued for many years as Chairman of the Public Accounts Committee, Chairman of the Treasury Civil Service Committee and in other capacities. He will be pleased to note that in the forecast for 1984, which we publish today, consumer expenditure is expected to rise by 2·5 per cent. and fixed investment expenditure by 4 per cent.

Mr. Roy Jenkins (Glasgow, Hillhead): Is the Chancellor aware that the great weakness in the balance of the economy is the low level of public investment? He cannot deny that it has fallen by 40 per cent. in real terms during 10 years and is now lower than at any time since 1914 as a proportion of GNP. In those circumstances, to continue to drive down the PSBR, ineffective though he may be in achieving that, is not sound finance but dogmatic nonsense.

Mr. Lawson: If the Government had not maintained a firm policy of controlling and bringing down the PSBR, interest rates today would not be at their lowest level for more than five years. That is more important to industry than are the many other suggestions that have been made, especially to the construction industry, about investment projects. It is important to invest overall and not simply in the public sector. One reason for the shift is that the Government believe that, on the whole housing is more effectively and efficiently left to the private sector than to the public sector. As I pointed out, total public sector investment has been increasing well, and next year we expect fixed investment to increase faster than consumer expenditure.

Mr. Anthony Nelson (Chichester): Does my right hon. Friend agree that one reason why the Government are spending about 45p in every pound is the open-ended statutory commitment to the payment of social security benefits? Does he not agree that we are fast approaching a time when we must seriously consider whether we are serving the long-term interest of the least well-off and the unemployed by increasing benefits at the expense of investment in the capital base of the economy, which in the long run will provide them with real hope for re-employment and higher standards of living?

Mr. Lawson: My hon. Friend rightly implied that those who are calling for increases in public sector capital investment should suggest where savings are to be made on current expenditure to make room for it. One of the biggest increases in public expenditure is on the social security programme.

Mr. Bryan Gould (Dagenham): When will the Chancellor learn the lesson of his own and his predecessors' bitter experience, which is that each time he announces further cuts the counter-productive effect of those cuts makes it inevitable that in a few months he will have to announce yet further cuts? When will he find a way to escape that contractional logic before the real world economy disappears into a monetarist black hole?

Mr. Lawson: There is no question of a black hole, unless it is where the hon. Gentleman has been living. If he were to live in the real world where the sun shines, he would see that there is a recovery from the world recession and a recovery in the United Kingdom economy. As a result of the Government's policies the United Kingdom's economy is growing faster than that of any other country in the European Community.

Mr. Maurice Macmillan (Surrey, South-West): I congratulate my right hon. Friend on keeping the additional cost to industry of the national insurance contribution below the level of inflation. Will he reconsider the question of energy costs and nationalised industry prices generally? In the present circumstances what does he consider to be an adequate return on capital, bearing in mind that the knowledge of what that capital is is imprecise? An ordinary commercial enterprise would regard the dividend as a guide to the future of the industry and its effect on customers.

Will my right hon. Friend assure the House that capital investment will be kept in line with the sale of assets? If not, I fear that we shall be selling the furniture to pay for the food, and we cannot continue to do that indefinitely.

Mr. Lawson: The sale of assets does not reduce the amount of capital but simply transfers some capital stock from the public to the private sector, where it can be more efficiently used and where a better return can be received for the benefit of Britain as a whole. My right hon. Friend

[*Mr. Lawson*]

also asked me about the rate of return on gas and electricity prices. The rate of return on capital to the electricity industry is a little under 2 per cent., and few private enterprises would be prepared to conduct business for such a rate of return. Although pricing policy is a matter for the industries, within the framework set by the Government, it is likely that during the coming year the price of gas and electricity will increase by less than the rate of inflation.

Mr. Donald Stewart (Western Isles): Can the Chancellor explain why the share of public expenditure available to the Secretary of State for Scotland has been steadily reduced? Since the income from the Scottish oilfields is keeping the entire ramshackle British economy afloat, does he not believe that such a reduction would be unacceptable in Scotland, where his party was rejected by 70 per cent. of the electorate?

Mr. Lawson: The Conservative party, and the majority of the Opposition, have always maintained that it is British oil, not uniquely Scottish oil. The right hon. Gentleman's detailed questions are a matter for my right hon. Friend the Secretary of State for Scotland.

Mr. Nigel Forman (Carshalton and Wallington): Although I welcome the good prospects for growth and the combating of inflation in the coming period, is not my right hon. Friend a little concerned that the recovery may be lopsided? What steps will he take to ensure that industrial profitability is further improved, and that we have more currency stability so that we can have better prospects of exporting our goods?

Mr. Lawson: I share my hon. Friend's desire for increased profitability, which is a critical ingredient in our long and short-term recovery. I am glad to say that profits are increasing by about 25 per cent. this year, following an increase of more than 20 per cent. last year. They started from a low level, but that is a marked and encouraging recovery. As to the alleged lopsidedness of the recovery, if my hon. Friend examines the table in the autumn statement, which is now available, he will see that consumer expenditure is expected to increase by 2·5 per cent., fixed investment is expected to rise by 4 per cent. next year, and exports will rise by 4 per cent. That is the shape of recovery that my hon. Friend wishes to see.

Mr. John Maxton (Glasgow, Cathcart): Will the Chancellor give some details of the housing benefit changes in Scotland? How much will be cut from Scotland's overall housing budget? What is the Government's estimate of the number of tenants who will be evicted as a result of the changes, and how many houses will become uninhabitable during the next year? How many building companies will go bankrupt, and how many building workers will be declared redundant?

Mr. Lawson: Those matters, if they are matters for anyone in the Government — *[Interruption.]* Some of them are questions for local government. In so far as they are matters for central Government, they should be addressed to my right hon. Friend the Secretary of State for Scotland.

Mr. David Howell (Guildford): What percentage of total Government spending next year will be in the form of fixed capital investment? Will my right hon. Friend undertake at least to consider, in setting out the Government's accounts in future, presenting a clear distinction between borrowing for capital needs and borrowing for current needs, as was the practice?

Mr. Lawson: I cannot tell my right hon. Friend that now, but the breakdown will be provided in the normal way when the public expenditure White Paper is published. I hope that when it is published we can have a more sensible definition of capital expenditure, which at present leaves much to be desired.

Mr. Richard Wainwright (Colne Valley): Does the Chancellor realise that in one and the same statement he has painted a false dawn and then obscured it with heavy clouds of higher taxation, including fuel taxes? Does he realise that his statement does less than nothing for business confidence, which could be the engine of a sustained and genuine recovery through overdue capital expenditure? Does he also realise that a recent survey by the CBI and the British Institute of Mangagement showed conclusively that the four things that industry most needs to provide more jobs, among other things are, more capital spending, lower energy costs, lower interest rates and a stable exchange rate? Why has he been stone deaf to each of those pleas? Why did he not take the advice of the other place, given unanimously on Monday of this week, and take the opportunity to announce that Britain will join the exchange rate mechanism of the European monetary system?

Mr. Lawson: That last point may be the unanimous opinion of the other place, but I do not detect that it has unanimous support in this House. As at the recent CBI conference there was a vote on the issue and the majority voted against it. The matter is still under review, but the hon. Gentleman should make the issue less of a King Charles' head.

As for doing nothing about interest rates, I agree that interest rates are vitally important to industry, and that is why we are determined to keep Government borrowing down. As a result of that determination, interest rates have come down a full point since the election, to the lowest level for over five years. The CBI reckons that one point off interest rates is worth £300 million.

Mr. John Townend (Bridlington): I congratulate my right hon. Friend on having had some success in withstanding the avaricious demands of spending Ministries. Does he agree that the burden of taxation is far too high and that if he is to have any chance of fulfilling our pledge to reduce the level of taxation there will have to be continued pressure to control spending Departments —something that has not happened as well as it should this year—and to cut expenditure?

Mr. Lawson: I agree that we must maintain, throughout this Parliament, firm control on public expenditure. In that way the burden of taxation will be able to fall during the lifetime of this Government.

Mr. Dennis Skinner (Bolsover): Is the Chancellor aware that, on the question of interest rates, notwithstanding the fact that they have come down by 1 per cent. since the general election, inflation is still running at 5 per cent., and the gap between the rate of inflation and interest rates is at a near historic high, which is one of the main problems? Does not the right hon. Gentleman accept that, after four and a half years, this experiment is not working? I do not know whether Tony Jacklin or the Rolling Stones have applied to come back to this tax haven, as this Government promised in the election of 1979, but that is truth enough in itself. Is not the fact of the matter that this magic cure of monetarism has failed, and so pathetic are this Government and so booming is our economy that tomorrow morning the Government will not be able to afford to give the disabled a fair crack of the whip and they will be bringing in their people to vote the measure down? What an economy! What a Chancellor!

Mr. Lawson: My right hon. Friend the Prime Minister has already outlined the Government's excellent record on support for the disabled, and this matter will be further debated tomorrow. As for interest rates, the point with which the hon. Gentleman began, it is perfectly true that under the Labour Government there was not this gap between interest rates and the rate of inflation, but that was because the Labour Government pushed inflation up. That was how they closed the gap. However, that is no good for British industry and the British economy, and it is not the route that this Government will follow.

Mr. Terence Higgins (Worthing): In the past, my right hon. Friend has stressed the importance of changes in the nominal rate of money supply in relation to inflation as the two affect the real money supply. What assumption has been made in preparing the forecast published today about changes in the real money supply over the forecast period?

Mr. Lawson: To some extent, my right hon. Friend, who is on to a good point, can work it out for himself. I have said what we expect the rate of inflation to be next year, and the assumed rate of growth of the money supply is 6 per cent. to 10 per cent., as is shown in the Financial Statement and Budget Report made by my right hon. and learned Friend the present Foreign Secretary ealier this year.

Mr. Dick Douglas (Dunfermline, West): Would the Chancellor care to tell the House what reliance his statement is making on oil prices, because the degree of stability in this is likely to be fundamental to his economic strategy? What proportion of gross domestic capital formation will be related to manufacturing industry? What proportion of this increase in exports which he is boasting is oil-based?

Mr. Lawson: The assumption is of a broad stability in oil prices. Manufacturing investment is expected to increase and manufacturing exports are also expected to increase.

Sir William Clark (Croydon, South): Does my right hon. Friend agree that the nationalised industries, including gas and electricity, should be run as commercial enterprises, and not as an extension of the welfare state? In view of the fact that the Government are borrowing money at 10 per cent. or 10·5 per cent., and the return on capital from the electricity industry is just under 2 per cent., and that for the gas industry is just under 4 per cent., is there not a subsidy, and is this not giving to rich and poor alike—something that should not be done? May I urge my right hon. Friend to resist the blandishments not to charge a proper price for energy, but instead, where there is need, to help through supplementary benefit?

Mr. Lawson: My right hon. Friend is right, and we do just this. We are spending about £350 million a year on help for the needy for their fuel costs through the social security system. That is a far more sensible way of helping these people than generalised subsidies on energy prices.

Mr. George Foulkes (Carrick, Cumnock and Doon Valley): Did I mishear the Chancellor saying that the November 1984 social security increaes will be based on the increase in prices from May 1983 until May 1984? Will the Chancellor confirm that the Government have not abandoned their pledge to make good the shortfall that occurred when they moved from the predictive to the historic method of calculation, and will he say precisely how this shortfall will be made up?

Mr. Lawson: There is no shortfall to be made up.

Mr. Foulkes: Yes, there is.

Mr. Lawson: The Government are fulfilling all their pledges. The hon. Gentleman did not mishear. I said that the uprating in November 1984 will be based on the increase in prices between May 1983 and May 1984.

Mr. Michael Morris (Northampton, South): Is my right hon. Friend aware that the net receipts from denationalisation of £400 million are welcome, but there is some disappointment that Enterprise Oil has been delayed for a year? Will he give an assurance that he will vigorously support further denationalisation, particularly in energy?

Mr. Lawson: I vigorously support further denationalisation in energy, as in other aspects. When I was Secretary of State for Energy I supported such measures. I can reassure my hon. Friend that it is not a slippage of a year but of a few months that takes Enterprise Oil out of this financial year and into the next one.

Mr. Doug Hoyle (Warrington, North): Will the Chancellor note, after his unconvincing and unsatisfactory performance this afternoon, that, judging by the reaction on the Benches behind him, hon. Members appear to prefer even a dead sheep to him? Can he tell us what will be the effect of the rise in fuel tax on the competitiveness of British industry, bearing in mind that its competitiveness now is far worse than it was in 1979, before his Government came into office?

Mr. Lawson: There is no fuel tax. Electricity prices for industry, as I said, are likely to go up this year by less than the rate of inflation, following a year when they did not go up at all. There has been a long freeze on industrial gas prices. Industry is fully appreciative of the energy policies that this Government have been pursuing. What disappoints the hon. Gentleman is that I have not been able to come to the House and please him with bad news.

Sir Geoffrey Johnson Smith (Wealden): While I recognise, as the Chancellor said, that a low rate of inflation and steady growth is a winning combination, will my right hon. Friend reassure the House that in the next few years he will not regard a zero rate of inflation as a primary objective in itself?

Mr. Lawson: I said at the Mansion House, and I repeat today, that our ultimate objective is stable prices. There is no conflict between that and our other objective of sustained economic growth. Indeed, it is the fall in inflation which has been the prime cause of the economic recovery to date.

Mr. Norman Atkinson (Tottenham): If the Chancellor is so committed to growth in employment, why is he

[Mr. Norman Atkinson]

pursuing a deflationary strategy? When he used in his statement the word "productivity", did he mean that output per worker in manufacturing had increased? If so, why is he so concerned about agreeing with the Confederation of British Industry that workers in manufacturing should not go for higher wage increases?

Mr. Lawson: The fact is that manufacturing industry — all credit to it — has improved its productivity unprecedentedly over the past two years. As for pay increases, for manufacturing or any other industry to pay higher wages than the companies concerned can afford is a sure way of losing jobs.

Mr. Peter Hordern (Horsham): Since neither the electricity industry nor the gas industry thought in its commercial judgment that prices needed to be increased, can my right hon. Friend say by how much he expects the extra revenue from savings in borrowing will exceed the extra industrial cost to industry and the extra cost of old-age pensions and supplementary benefit?

Mr. Lawson: As I mentioned earlier, there is no question of an energy tax as a result of the price changes that are likely to occur for gas and electricity. This is a matter of economic pricing which is in the best interests of the economy as a whole.

Mr. Jack Ashley (Stoke-on-Trent, South): In view of our economic difficulties, and the fact that kidney patients are dying because of lack of attention and the long-term unemployed are being forced into penury, why does the Chancellor support the Prime Minister's excessive squandering of £1,000 million in the south Atlantic when millions of our people are in misery?

Mr. Lawson: The right hon. Gentleman's figures are wrong by a wide margin. Nevertheless, there is substantial expenditure on the Falklands. I think it is the wish of the whole House that we should take the steps that are necessary to ensure that the Falkland Islanders may remain at liberty.

Mr. Nicholas Budgen (Wolverhampton, South-West): If my right hon. Friend is serious in wanting a great debate about reductions in public expenditure, will he forthwith publish a Green Paper setting out the policy options, explaining the advantages and disadvantages of the various courses set out and explaining also what the Government's preferences are?

Mr. Lawson: I shall certainly consider my hon. Friend's suggestion.

Mr. Austin Mitchell (Great Grimsby): Instead of trying to disguise the mess with pompous pietism and mirage mongering, why does not the Chancellor give the figures? What will be the losses to a housing benefit system which is already inadequate? What will be the increase in gas prices which are already used as a form of backdoor taxation? What will be the increase in electricity prices which are already so high that they are making British industry uncompetitive? Why does he not bring down interest rates which are keeping the pound up and strangling British industry? How much more of the people's property will he have to flog off to disguise the consequences of his failure?

Mr. Lawson: As I intimated before, the likely increases in gas and electricity prices, which are not fixed by the Government, will be below the going rate of inflation. I should have thought that the hon. Member would welome that. As for housing benefit, that is a matter for my right hon. Friend the Secretary of State for Social Services. Housing benefit applies to about 7 million households, or one in three, including those well above average income. The savings are chiefly to be made in that area.

Mr. Tim Eggar (Enfield, North): Is it not good news that inflation is lower and output higher than was predicted in the last Budget and during the election campaign by my right hon. and learned Friend? Does not this good news give the lie to the doom mongers on the Opposition Benches who have been saying consistently that recovery would not be sustained? The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) said it again today. Why do the Opposition go on denigrating the country?

Mr. Lawson: That is a very good question, but it is not one for me to answer. Perhaps the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) would care to answer it if he catches your eye again, Mr. Speaker.

Mr. Derek Foster (Bishop Auckland): Has the Chancellor seen the comment of the Institute of Directors that he has failed to cut taxation and public expenditure and seeks to hide that by asset sales and increasing gas prices?

Mr. Lawson: I am surprised but delighted to hear the hon. Member's support for the Institute of Directors. I hope that he will maintain that support throughout this Parliament.

Mr. Edward Leigh (Gainsborough and Horncastle): Bearing in mind that right hon. and hon. Members in the Opposition seem to have forgotten the second highest spending Department, Defence, can my right hon. Friend confirm the good news that he is abiding fully by the commitment of Her Majesty's Government to increasing defence spending by 3 per cent. in real terms?

Mr. Lawson: Defence spending for 1984-85 will grow by 3 per cent. in real terms, plus a substantial addition for the Falklands expenditure.

Several Hon. Members *rose*——

Mr. Speaker: Order. As the House knows, there is to be another important statement. I shall call those hon. Gentlemen who are now standing.

Mr. Richard Tracey (Surbiton): May I reassure my right hon. Friend, if he should need it, by reminding him that there are people living in Socialist France who wish that they could have heard a statement such as his today? May I urge him, when he gets the chance, to spell out to the British people that if the Labour party had won the election on 9 June we would have been heading for the same plight?

Mr. Lawson: I shall do my best to make that point. It is a powerful one.

Mr. Harry Ewing (Falkirk, East): Is the Chancellor aware that in paragraph 2.10 of his statement he says that there will be increased provision for redundant steelworkers and shipbuilding workers—in other words, more unemployed — and that that increased provision will be more than offset by a reduction in regional development grants and aid to individual companies? By how much will regional development grants and aid to individual companies be reduced, and how many more jobs will that cost?

Mr. Lawson: Regional development grants are a matter for my right hon. Friend the Secretary of State for Trade and Industry.

Mr. Michael Howard (Folkestone and Hythe): My right hon. Friend referred to the fact that output is currently rising at a higher rate than it is in any other member country of the European Community. Can he confirm that this is the second consecutive year in which that is true? Can he tell the House when this country last achieved that feat?

Mr. Lawson: That is correct. This year and, indeed, next year the European Commission expects us to have the highest rate of growth in the European Community—for two successive years, something which has never occurred before.

Mr. Bruce Millan (Glasgow, Govan): On regional development grants, why did the Chancellor not answer the question that was put to him? A reduction is proposed. That must mean that many areas which are scheduled will be descheduled. Why cannot the Chancellor come clean on that?

Mr. Lawson: The Government will in due course be publishing a paper on the future of regional policy. It will be a discussion document and we will welcome views from all quarters, including those of the right hon. Gentleman.

Mr. Dave Nellist (Coventry, South-East): The Chancellor has explained that he predicts a 4 per cent. increase in investment next year. The sale of 51 per cent. of British Telecom shares is supposed to raise £4 billion to £5 billion, which is roughly the same amount of money that is normally put into manufacturing industry. How by the sale of British Telecom and other measures of denationalisation does he expect to see that 4 per cent. increased investment achieved? If he wants to cut the amount spent on energy, he could do worse than get rid of the 58·5 million tonnes of coal that are stock-piled at the pitheads and the power stations by giving it free to pensioners, so preventing 46,000 people dying from hypothermia if this winter is as bad as that of 1981.

Mr. Lawson: I think that the hon. Gentleman is in a bit of a muddle. The privatisation of British Telecom will be a transfer of a very important part of British industry from the public sector to the private sector. When I was talking about an increase of 4 per cent. in fixed investment next year, that was total investment in the country as a whole, private and public sectors combined.

Mr. Tam Dalyell (Linlithgow): If the Chancellor of the Exchequer is so cocksure that my right hon. Friend the Member for Stoke-on-Trent, South (Mr. Ashley) gave the wrong figures for fortress Falklands, presumably he means that he has the right figures. May we have them?

Mr. Lawson: I shall gladly give the hon. Gentleman the figure for the Falklands in the coming year. It is £684 million.

Mr. Archy Kirkwood (Roxburgh and Berwickshire): Does the Chancellor of the Exchequer accept that his announcement on housing benefits will cause great disappointment and despondency? Does he further accept that people in receipt of housing benefit are among the most disadvantaged of our society? Is he aware that the Government's proposals for the unified benefit have caused a great deal of chaos? Can he justify why he has selected that benefit for his cuts in the social security budget?

Mr. Lawson: I have no doubt that my right hon. Friend the Secretary of State for Social Services will deal with that matter in more detail in due course. It is ludicrous to suggest that a benefit that goes to about one household in three is solely for those who are worst off.

Mr. Ken Eastham (Manchester, Blackley): In his statement the Chancellor of the Exchequer claimed that the economy was expanding and he made the pious remark that we can now all share in the growth. May I remind him that 250,000 young people are now on youth training schemes and receive only £25 a week, and that that amount has not been increased since 1978? Is it reasonable to suppose that they will share in that growth?

Mr. Lawson: The youth training scheme is the most imaginative scheme of its kind ever introduced. I should have thought that the hon. Gentleman would welcome it.

Mr. Max Madden (Bradford, West): Will the Chancellor of the Exchequer give a clear assurance to all those in the real world who are dependent on social security benefits, including unemployment benefit, that in the coming year those benefits will be increased by at least as much as the increase of the cost of living? What will be done for the long-term unemployed, whose poverty is even now an embarrassment for Government advisers?

Mr. Lawson: As I said, the benefit will be uprated in November 1984 by the increase in the retail price index between May 1983 and May 1984. However, the best thing that can be done for the unemployed is to maintain a sound and healthy economy that will create jobs. That is what our policies are designed to achieve, are already beginning to achieve and will continue to achieve.

Mr. Kevin Barron (Rother Valley): Does the Chancellor of the Exchequer recognise that the energy costs of some sections of the engineering industry are as high as 20 per cent. and that the measures in his statement will make them go up again? Once more, manufacturing industry feels that it is being attacked by the Government. The effects on industry in the past four years have been shameful. Is the right hon. Gentleman aware that his measures are a further attack on the unemployed in that more unemployment will be created in industries that need to be protected? We should not be chasing after those industries and increasing their energy costs to raise money in other areas of the economy.

Mr. Lawson: The hon. Gentleman is right in intimating that we have an energy problem. It is the heavy cost of producing coal is a result of the large number of hopelessly uneconomic pits. I hope that the hon. Gentleman will support the National Coal Board in its efforts to reduce the costs of producing coal in that way.

Mr. Hattersley: The Chancellor of the Exchequer will recall that the Government Actuary's report, published today, will give the estimate of the number of unemployed that the Government expect over the next year or two. Will

[Mr. Hattersley]

the Chancellor tell us the working total of unemployed that the Government Actuary has recommended the Treasury and other Departments to calculate on? Will he tell us what the figure is? Will he ask the Leader of the House to give the House a report tomorrow on why that document, with that figure in it, which should have been available in the Vote Office at 4 o'clock, was not there a few minutes ago?

Mr. Lawson: I am sorry that the document was not in the Vote Office when it should have been. I am sure that my right hon. Friend the Leader of the House will look into whether the right hon. Gentleman's assertion is true, and, if it is, he will consider what should be done. As for the figure, the assumption that has been given to the Government Actuary is 2·85 million.

Severn Bridge

4.45 pm

The Secretary of State for Transport (Mr. Nicholas Ridley): With permission, Mr. Speaker, I should like to make a statement about the Severn bridge.

I told the House on 1 November that I considered it prudent to extend the early morning lane restrictions to round the clock, except at weekends, until I received further advice from Flint and Neill. I have now received recommendations from Flint and Neill, agreed by Mott, Hay and Anderson who carried out an independent check of the former's appraisal of the bridge superstructure. I am satisfied that the crossing will continue to be safe to use, with the adoption of the following three recommendations.

First, the closing of one lane in each direction every weekday from 4 am to 8 am, first introduced in March 1982, will be maintained.

Secondly, for eastbound traffic, the M4 carriageway will continue to be restricted to a single lane from the Newhouse roundabout as it has been from time to time since March 1982. Accordingly, one lane each will be available to the M4 traffic and the traffic from Chepstow, respectively.

Thirdly, for westbound traffic, between 8 am and 4 pm on weekdays all goods vehicles in excess of 7·5 tonnes will be channelled through one toll booth. The purpose of this control is to prevent bunching of heavy vehicles; in most circumstances they should be released without delay.

Round-the-clock restrictions will cease as from midnight tonight, and tolls will be reintroduced for eastbound traffic.

I am instituting careful monitoring of incidents causing, or likely to cause, a traffic jam on the bridge. If there is an incident, the following restrictions will be applied until it has been dealt with. If the incident is on the westbound carriageway, westbound traffic will be held at the toll booths and eastbound traffic joining the M4 from Chepstow will be stopped at the Newhouse interchange. Eastbound traffic already on the M4 will not be affected. If the incident is on the eastbound carriageway, eastbound traffic joining the M4 from Chepstow will be stopped at the Newhouse interchange; all westbound heavy goods vehicles will be held at the toll booths.

A different hazard is wind. Traffic will be prevented from using the crossing when both the gust wind speed exceeds 50 miles per hour at deck level of the bridge and the maximum mean hourly wind speed at deck level is forecast to exceed 62 miles per hour. Those conditions are expected to occur no more than once in two or three years on average.

I have set work in hand to improve those systems of traffic control in order to ensure the minimum interference to movement, within the safety limits for the bridge.

Finally, I shall assess with all possible speed the options put forward by Flint and Neill for strengthening the bridge to cope safely with increased loading. As soon as I receive the text of Flint and Neill's report on Mott, Hay and Anderson's check, I shall place a copy of it in the Library.

Mr. John Prescott (Kingston upon Hull, East): The House will welcome the statement, which at least shows a proper sense of urgency in dealing with legitimate public concern about the safety of this important bridge.

Does the Secretary of State now accept that those restrictions and controls, designed to control the flow of